Goodbaby
International

Goodbaby International Holdings Limited
Stock Code : 1086

Goodbaby
International

ANNUAL REPORT 2018

Goodbaby
International

gb cybex evenflo ROLLPLAY

CONTENT

CORPORATE INFORMATION

CORPORATE INFORMATION

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Song Zhenghuan *(Chairman)*
Mr. Martin Pos *(Chief Executive Officer)*
Mr. Yang Ilcheul (resigned on 7 November 2018)
Mr. Xia Xinyue
Mr. Liu Tongyou
Mr. Michael Nan Qu

NON-EXECUTIVE DIRECTORS

Ms. Fu Jingqiu
Mr. Ho Kwok Yin, Eric

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Iain Ferguson Bruce
Mr. Shi Xiaoguang
Ms. Chiang Yun
Mr. Jin Peng

AUDIT COMMITTEE

Mr. Iain Ferguson Bruce *(Chairman)*
Mr. Shi Xiaoguang
Ms. Chiang Yun

NOMINATION COMMITTEE

Mr. Iain Ferguson Bruce *(Chairman)*
Mr. Shi Xiaoguang
Ms. Chiang Yun

REMUNERATION COMMITTEE

Mr. Iain Ferguson Bruce *(Chairman)*
Mr. Shi Xiaoguang
Ms. Chiang Yun

AUDITORS

Ernst & Young
Certified Public Accountants
22nd Floor
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LEGAL ADVISOR

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HONG KONG BRANCH SHARE REGISTRAR

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Hong Kong

COMPANY SECRETARY

Ms. Ho Siu Pik

AUTHORIZED REPRESENTATIVES

Mr. Song Zhenghuan
Ms. Ho Siu Pik

WEBSITE

www.gbinternational.com.hk

STOCK CODE

1086

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

In 2018, despite the challenging environment, the Group has achieved a steady development by enhancing our strength while expanding our market share.

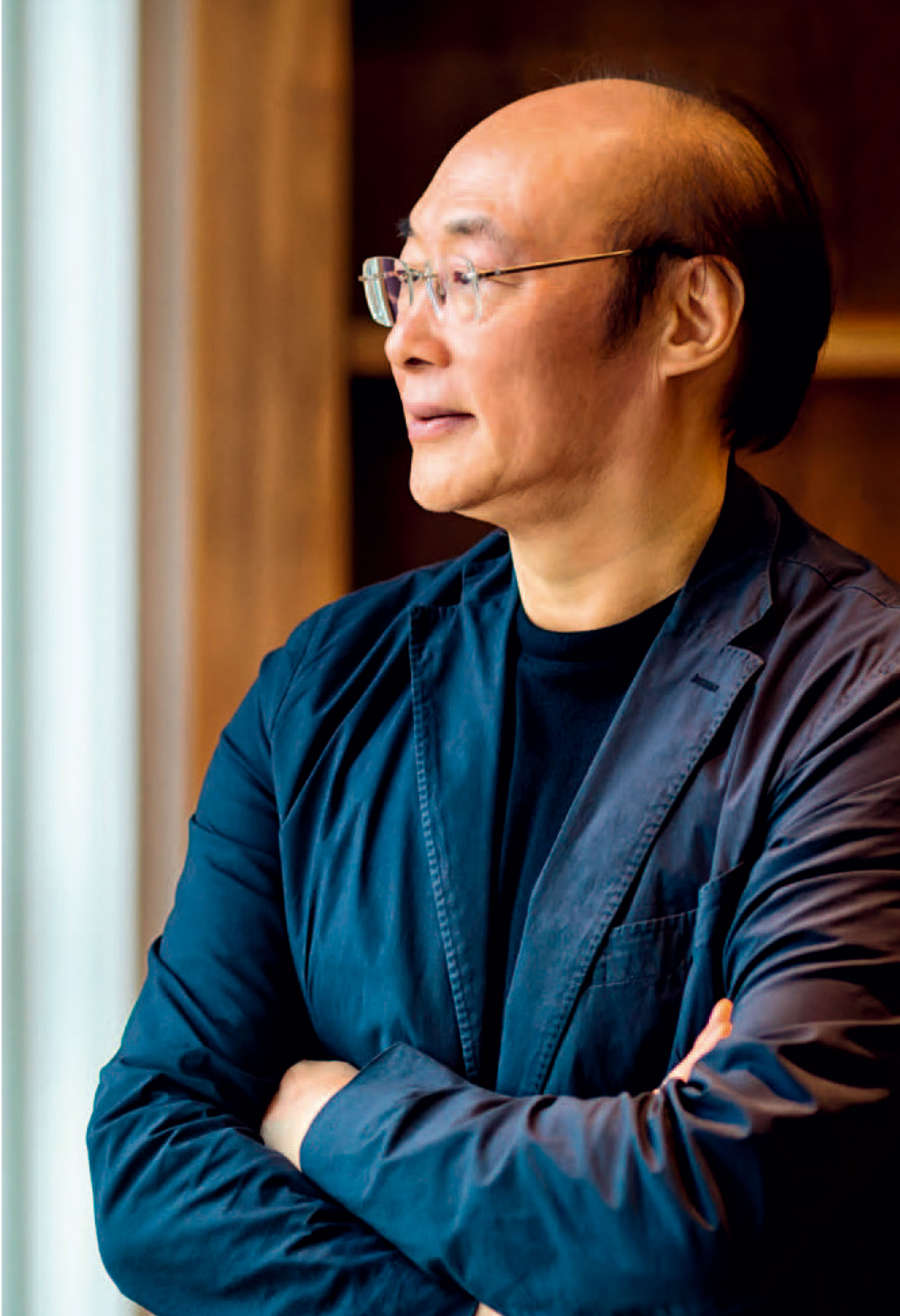
STEADY IMPROVEMENT IN OUR BUSINESS FOUNDATION

The Group's brand-oriented integrated business model was further enhanced. The Group's revenue and gross profit were stable, of which the revenue reached HK$8,629.1 million, and achieved sound development in each strategic brand.

Cybex continued its strong growth. It recorded a revenue of HK$2,042.5 million, representing an increase of 16.5% over 2017, and achieved a quarter-on-quarter growth in 2018. On product category, while its car seat business maintained steady growth, its stroller business achieved a large-scale rapid growth, with a revenue of HK$560 million, representing an increase of 71% over 2017. Our brand's presence and awareness are on an upward trajectory and will continue to impact the global juvenile market. The release and positive performance in retail outlets of new products under Cybex have made it into a highly sought-after brand in the industry. For instance, MIOS, a three-in-one light stroller, sold eighty units in a single store in a week, and won the "Kids Prize" in Japan; Along with Cybex's retail outlets' rollout in Europe and China, the brand image is significantly enhanced and customer's experience is greatly improved, with result to ushering in a new stage of user relationship management driven by both online and offline channels.

In the European and American markets, the influence of gb brand continued to increase, and the number of new user fans increased as well. The revenue was recorded at HK$307.2 million, an increase of 18.9% as compared to 2017. In the China market, the full-category and omni-channel operation strategy has reaped more benefits, and steady progress has been achieved in making the business more digital, internet-based and intelligent. The new flagship stores of gb brand succeeded in enhancing user interaction experience by providing scenario-based layout with new technologies, thus becoming a popular destination. In 2018, despite the unstable economic environment and the impact of the declining number of newborns, the China market business achieved a revenue of HK$2,621.4 million, a same level recorded in 2017.

Evenflo made persistent efforts in brand reshaping and R&D investment. The new products under the gold pipeline were launched as scheduled and well received by the market. Channel development has been progressing in a good manner and self-managed retail channels are steadily developed. In 2018, despite the significant impact of the bankruptcy and liquidation of our main channel TRU/BRU, Evenflo recorded a revenue of HK$1,826.4 million, a slight decrease of 1.5% as compared to 2017, and realized growth in the second half of the year.



CHAIRMAN'S STATEMENT

FRUITFUL ACHIEVEMENT IN INNOVATION

The Group made 450 new patents application in 2018. By the end of the year, the total number of patents amounted to 9,612 in the world; in 2018, it won five Red Dot Awards (two of which were Red Dot: Best of the Best), two Germany design award "Winner 2018", one CES gold award by the Global Consumer Electronics Show, one U.S. IDA silver award. Resources were further coordinated through the Group's global R&D system. With the perfect combination of technology and art, and the infusion of humanistic connotation into innovative products, the Group has been leading the industry trend.

Swan, the world's first type of carbon fiber stroller, is featured with light weight and flexibility. It is half the weight of other products with similar functions and features; it enables a smart rotate between the front and the rear, making it easy to manoeuvre.

The intelligent safety seat Everna-Fix designed for high-speed cars withstands a car crash test at the speed of 80km/h, several times better than similar products in safety performance, and over 25% better in side collision performance; this product is also equipped with the newly upgraded Bluetooth alert device "SOS Don't Leave Me Behind", which can be connected with the mobile app to improve children's safety in the car.

The e-Priam electric pushchair combines design and technology. The sensor accurately detects users' force, saving efforts for users in climbing up and heading down a slope in an intelligent way. It makes pushing the stroller in any road conditions be as easy as a walk upon flat ground. This product has created a new trend of parenting lifestyle, denoting the brand's strength featuring light luxury and technology.

In addition, the Group links its innovation platform to the world's premium designer resources, which has brought vitality into the design and helped rejuvenate the brand to capture the minds of the new generation of consumers.

NEW DEVELOPMENT IN ORGANIZATION STRUCTURE

Under the leadership of the Group CEO Martin Pos and executive directors, the Group has improved its brand-driven, business-oriented organization structure, forming a complete business leadership team consisting of Mr. Johannes Schlamminger as CEO of Cybex, Ms. Jiang Rongfen as CEO of gb, and Mr. Jon Chamberlain as CEO of Evenflo, Mr. Jeffrey Popper as CEO of Rollplay. The consumer-centric organization structure with internal driving force and external cooperation is further improved with the global collaborative management system.

FOCUS ON THE PRESENT TO CREATE A SUCCESSFUL FUTURE

Our vision is to build the leading "global eco-system" of the juvenile industry.

We are committed to four major transformations:

Firstly, transformation of the mindset from brand-centric to consumer-centric;

Secondly, transformation of the driving force from operating assets to operating competence;

Thirdly, transformation of the model from operating the industry chain to operating a platform;

Fourthly, transformation of value creations from physical values to social values.

In 2019, we will focus on further developing brands, products and channels to lay a solid foundation; increasing efforts in consumer engagement; and cooperating with world's resources to build a symbiotic model.

Achievement of near-term target is the foundation for the future. No matter how the environment changes, my team and I will face up to challenges, pursue best of the best, make solid and thorough efforts to create a new bright future for the Group and increase value for our shareholders. We look forward to your sustained attention and support.

Thank you!

Yours Sincerely
Song Zhenghuan
Chairman

25 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW

As reported, we recorded growth in revenue and operating profit for the full year of 2018 ("the Period"). Our revenue for the Period increased by 20.8% to approximately HK$8,629.1 million from HK$7,142.6 million for the corresponding period in 2017. Our reported gross profit increased by 33.3% to HK$3,661.3 million for the Period from HK$2,746.8 million for the corresponding period in 2017. Our reported operating profit increased by 4.6% to HK$326.8 million for the Period from HK$312.5 million for the corresponding period in 2017 and on a non-GAAP basis, our operating profit increased by 4.3% to approximately HK$432.3 million for the Period from approximately HK$414.6 million for the corresponding period in 2017.

On a pro forma non-GAAP basis[1], our revenues for the Period remained level at approximately HK$8,629.1 million vs. approximately HK$8,626.4 million for the corresponding period in 2017, gross profit decreased by 1.0% to approximately HK$3,668.9 million from HK$3,706.0 million in the same period of 2017 and operating profit decreased by 37.9% to approximately HK$432.3 million from HK$695.7 million in the same period of 2017. This slight decline in our gross margin is primarily driven by sales shortfalls of Evenflo and gb durables, rising input costs and customer mix offset by a favorable brand mix. Operating expenses increased 7.5% to approximately HK$3,236.6 million for the Period from HK$3,010.3 million in the same period of 2017. This increase is a result of continued investment of future growth, plus additional expenses incurred related to the bankruptcy of a logistics provider in EMEA and Opex investments for certain China market initiatives.

During 2018, we realized strong performance from:

- Cybex global performance attributed to new product introductions and channel expansion. During the Period, we recorded approximately HK$2,042.5 million revenue from Cybex brand, representing 16.5% year-on-year growth;
- gb durables business in international markets and gb non-durables business. During the Period, we recorded approximately HK$307.2 million and HK$1,574.7 million revenue from gb durables business in international markets and gb non-durables business representing 18.9% and 16.6% year-on-year growth, respectively.

and were negatively impacted by:

- the continued effects related to the bankruptcy and ultimate liquidation in early 2018 of Toys R Us, Inc. ("TRU") and its subsidiary Babies R US ("BRU").
    - o In addition to bad debt recorded in H1 2018, our consolidated revenues from TRU/BRU were approximately HK$34.6 million in 2018, compared to HK$291.6 million for the full year of 2017. Our toy based business segment including our Rollplay brand plus the Exersaucer product line within the Evenflo brand were directly negatively impacted.
- lower gb branded durables revenues in our China market
    - o While our China market of gb branded non-durable business continues to generate strong profitable growth, revenue of gb durables in China market decreased to approximately HK$1,046.7 million for the Period from HK$1,324.2 million in the corresponding period 2017. In a year full of challenges for our China durables business, the overall decrease is primarily attributed to a notable decline of approximately 12% in China's birth rate, overall weaker consumer confidence especially in the second half of 2018, realignment of our durables distribution channels and previous China Leadership performance.

1 We presented the pro forma, non-GAAP basis ("pro forma") consolidated financial figures for the purpose of illustrating the effect on the revenue and non-GAAP operating profit of the Original Business and Acquired Business as if the Acquisition had been completed on 1 January 2017. The pro forma consolidated financial figures have been prepared for the illustrative purposes only and are based on a number of assumptions, estimates and uncertainties. The pro forma consolidated financial figures should be considered in addition to, not as a substitute for, analysis of the Company's financial performance prepared in accordance with IFRS. The Original Business represents the business of the Group excluding the Acquired Business. The Acquired Business refers to the business acquired by the Group through the Acquisition. The Acquisition refers to the Group's acquisition of Oasis Dragon Limited which was competed on 23 October 2017.

MANAGEMENT DISCUSSION & ANALYSIS

EXECUTIVE SUMMARY

CONTINUED COMMITMENT TO OUR STRATEGIC BRANDS

Our key strategic brands of Cybex, gb and Evenflo recorded an overall 3.9% growth in revenue. Cybex, gb and Evenflo recorded revenue of approximately HK$2,042.5 million, HK$2,928.6 million and HK$1,826.4 million respectively, representing growth of 16.5%, and declines of 0.1% and 1.5%, respectively, compared to the corresponding period 2017. As a result, our key strategic brands represent approximately 79% of total revenues for the Period compared to 76% for the corresponding Period in 2017.

- **Region APAC**

  2018 has been a year full of challenges. On a proforma basis, our China market recorded revenue of HK$3,138.5 million during the Period, representing a slight drop of 0.8% from HK$3,165.0 million in the corresponding period in 2017. This overall slight decrease is the net result of continued strong growth in the non-durables sector offset by the overall decline in durables revenues.

  In non-durables, we recorded 14.9% growth in gb baby care products and 19.6% growth in apparel and home textile products as we continued to appeal to the fast moving trends in lifestyle and consumer behavior, drive new product innovations and focus on improving linked online/offline sales and repeat purchases to reinforce our expanding Omnichannel strategy.

  Offsetting the non-durables increase is a 21% decline in gb durable products in the Period vs. the corresponding period in 2017. Several factors impacted this decline including the approximate 12.0% drop in the birth rate in China in 2018 vs. 2017 and weaker overall consumer confidence especially in the second half of 2018.

  The 2018 performance of China market resulted in a change of leadership in November 2018. Under the new leadership of Nicole Jiang, CEO of China Market, the organization has been stabilized and the China market performance is gaining momentum for a turnaround in 2019.

  Fueled by continued new product introductions and further channel development, our Cybex brand recorded very strong growth of 58.4% during the Period vs. the corresponding period in 2017.

  Revenue outside China declined by 10.7% to approximately HK$503.9 million in the Period from approximately HK$564.3 million in the corresponding period in 2017. The decline is directly attributable to the negative impact of Rollplay brand revenues related to the TRU bankruptcy and liquidation and to the impact of the strategic closure of our Geoby brand business in late 2016/early 2017. Revenue outside China will begin to stabilize as the TRU and Geoby impact diminishes.

  As an offset, our non-wholly owned distribution platform formed in Japan in March 2018 has already started to produce impressive results focusing initially on the Cybex product lines. During the Period, our revenue generated in Japan increased by 123.4% compared to the corresponding period in 2017.

- **Region EMEA**

  Our EMEA revenues for the Period approximated HK$2,053.9 million, as compared to HK$1,837.6 million for the corresponding period in 2017. Our EMEA growth of 11.8% was achieved by continued strong consumer reception of our brand building, new product introductions and channel expansion from 2017. While the consumer demand remains strong, our growth in EMEA was limited due to logistical challenges associated with the bankruptcy of our primary EMEA logistics/warehousing provider and the transition to a larger capacity logistics/warehousing provider during mid/late 2018.

  Despite the logistical challenges incurred, both Cybex and gb brands continued to experience growth in 2018.

  Our Cybex brand achieved strong growth of nearly 10.7% with revenues approximating HK$1,743.2 million during the Period. Despite the logistics challenges in mid/late 2018, Cybex revenue continued to achieve growth in the last six months of 2018 vs. the first six months of 2018 and vs. the last six months of 2017. The growth is primarily attributed to the successful new product launches. Car seat, overall stroller and home goods performance remains strong. As the remaining logistical transitional tasks will be completed by Q1 2019, we fully expect Cybex to return to strong growth.

In order to continue to service market demands, we incurred nearly HK$37.0 million in additional expenses during mid/late 2018 to facilitate the transfer of logistics capabilities to a new provider without further disruption to distribution channels.

Our gb brand revenues in EMEA realized 26.7% growth in 2018 in total EMEA revenues to approximately HK$299.7 million for the Period as compared to HK$236.5 million for the corresponding period in 2017. Recognized as a technical / lifestyle premium brand in EMEA, the gb brand growth is primarily attributed to strong car seat growth.

The stronger brand awareness recognition, continued successful product and channel strategy, supported by a strengthened logistics capability and efficiencies in supply chain will produce increased levels of growth and profitability for the future.

- **Region Americas**

2018 was an extraordinary year in which the overall juvenile market appreciably declined due to TRU/BRU's bankruptcy and huge liquidation of baby gear, placing top-line growth pressures on all juvenile product manufacturers. Revenue for the Americas region declined approximately 2.6% primarily due to these challenges, with recorded revenue in the Period of approximately HK$1,904.8 million as compared to HK$1,956.5 million for the corresponding period in 2017. Notwithstanding this extraordinary event, Evenflo strengthened its position and retail sell-thru with all other significant channels of distribution. The introductions of two leadership products fueled those results. Excluding the impact of the TRU/BRU liquidation, Americas achieved a 5.5% revenue growth during the Period in other channels. As we continued to ship product to BRU in early 2018, we expect the overall impact of TRU/BRU will diminish within early/mid 2019 and are confident that our future new product placements will drive a return to overall growth. Further growth momentum was hampered in late 2018 due to declining consumer / retail confidence resulting from the ongoing tariff war between the US and China, and further impact from the government shutdown in December 2018/January 2019. Gross margin pressures were realized primarily due to overall revenue decline, selected increases in retailer channel costs and increased input costs mainly driven by higher resin and freight costs. We continue to focus our efforts and investments on brand building, developing and launching key new products focused on meeting consumer-driven needs and ensuring optimized alignment of our distribution channels to drive sustainable growth.

In late 2018/early 2019, Goodbaby/Evenflo relocated its headquarters and commercial teams to Boston, Massachusetts to further strengthen our go forward capabilities and talent acquisition.

Our Cybex brand continues to realize rapid growth as it introduces incremental consumer oriented product solutions that reinforce Cybex as the premier premium lifestyle brand in Americas. Cybex revenue increased 54.1% in the Period compared to the corresponding period in 2017.

During September 2018, a 10% tariff was implemented on certain juvenile product categories imported from China. The introduction of this tariff, and the consequence of any future trade war negotiations currently underway, have caused some disruption in buying decisions and resulting sales in those categories. However, the overall impact to our consolidated revenues is not considered material. For the Period, approximately 8.6% of consolidated revenues are in categories currently subject to the 10% tariff.

BLUE CHIP

As the Blue Chip business continues to stabilize after past years of rapid decline, our revenue decreased approximately 6.8% in the Period compared to the corresponding period in 2017. We recorded revenue of HK$1,028.1 million in the Period, compared to HK$1,103.1 million in the corresponding period in 2017. The majoring of this decline is directly attributed to the final planned phase out of one historical customer. We did expectance growth during 2018 from each of our Top 5 Blue Chip customers. These results for the Period are within management expectations and reflect the continued close working relationship with key customers who value our outstanding manufacturing, research and development, quality, cost competitiveness and overall service capabilities. Our business relationships in this sector are stable and healthy and our overall results are a reflection of customer activities and overall timing.

MANAGEMENT DISCUSSION & ANALYSIS

INNOVATION AND TECHNOLOGY

The Group has eight dynamic R&D centers concentrated in China, EMEA and North America. The R&D hubs in these three geographic regions, each with a specialty focus, allow us to design and innovate a wide range and variety of innovative products in a collaborative manner sharing best practices to ensure we are focused on consumer needs. As at 31 December 2018, the total number of the Group's historically obtained patents reached more than 9,600.

In 2018, the Group's strategic brands, Cybex and gb, are continuing the success by achieving outstanding results in the most important European car seat tests. Three car seats received in total 12 safety awards by independent consumer testing organizations. The Pallas S-Fix and the Solution S-Fix were awarded "test winners", the rotatable facing Child seat, gb Vaya i-Size, has been awarded with the German Design Award "Winner 2018". For strollers, the lightweight and compact Cybex MIOS has been awarded with the German Design Award "Winner 2018". The cosmopolitan stroller Cybex Eezy S Twist with its unique one-hand rotatable seat and the Cybex Balios S were awarded with a "Winner" Red Dot Award. With a weight of only 6.3kg, the gb Swan stroller sets an example in terms of material combination, function and ergonomics. The stroller combines new material technologies like carbon fiber with a fashionably elegant look. For this achievement, the stroller has been awarded with a "Best of the Best" Red Dot Design Award. Additionally, the Cybex car seat Sirona M with SensorSafe 2.0 has been rated "The Best of BabyTech 2018" at the Consumer Electronics Fair (CES) in Las Vegas and "Best in Show" at the 2018 JPMABabyShow in the US. The Evenflo car seat EveryState DLX All in One was voted "Parent's Pick" at the 2018 JPMABabyShow in the US. In the furniture category, the 4-in-1 seating system, LEMO, has been awarded with "Best of the Best" Red Dot Design Award.

By incorporating smart technologies in our products, we aim to make parents' lives easier and even more comfortable. The SensorSafe technology has now been launched globally in a wide range of car seats. The innovative technology has been combined with a smart app providing care givers detailed information about temperature and the buckling of their child. It reminds care givers of left behind children in the cars.

Based on this knowledge, the group will extend the smart abilities of products in strollers and home products to be launched in 2019.

PRODUCTION AND SUPPLY CHAIN

Continued discipline in execution of the Goodbaby Excellence System (GBES) has allowed us to achieve world class standards in supply chain and operational processes. The principles of this system, together with leveraging lean manufacturing methodologies and global supply chain reach has largely offset increasing raw material input and labor costs. Future initiatives including lead times and speed to market will further enhance our opportunity to optimize best of class supply chain, procurement and logistics to ensure our future competitiveness on a sustained basis.

ORGANIZATION

We continue to expand our global management and leadership capabilities, competencies and skills towards a lean and empowered organization structure, always based on our company's core values. As introduced in 2017, the Triangular Management System focused on consumer centric vision, strategy and standards with decentralized regional execution. It was well received and the resulting cooperation between Group functions, regions and business units has been simplified and improved to strive towards organizational and process excellence.

OUTLOOK

While 2018, presented several different challenges to the Group, we continued our progress in further strengthening our organizational and commercial foundation. Global demand for Cybex branded products continues to experience strong growth, and now with enhanced supply chain capabilities in EMEA and fortified distribution platforms across the globe, we fully expect Cybex to realize significant momentum during 2019. We expect the market challenges in the US and China to persist in 2019, particularly in Q1 2019; but we remain confident that our Strategic brands Evenflo and gb will see their respective revenue and profitability performance rebound during 2019. In all regions, we will sharpen our business models toward a B2C platform to adapt to the rapidly changing behavior of online consumerism. World class manufacturing and supply chain excellence, cost optimization will remain the core of our vision of leading the global juvenile eco-system and achieving sustained profitable growth.

FINANCIAL REVIEW[1]

REVENUE

For the year ended 31 December 2018, the total revenue of the Group increased by 20.8% from approximately HK$7,142.6 million for the year ended 31 December 2017 to approximately HK$8,629.1 million. The increase was due to the revenue growth from our own brand and retailer's private label business, but partially offset by the decrease in Blue Chip business.

The table below sets out the Group's revenue by business format for the periods indicated.

	For the year ended 31 December				Growth analysis 2018 vs 2017
	2018		2017		
	Sales (HK$ million)	% of sales	Sales[3] (HK$ million)	% of sales	Growth
Our own brand and retailer's private label	7,601.0	88.1	6,039.5	84.6	25.9%
APAC	3,642.3	42.2	2,245.4	31.5	62.2%
EMEA	2,053.9	23.8	1,837.6	25.7	11.8%
Americas	1,904.8	22.1	1,956.5	27.4	-2.6%
Blue Chip business	1,028.1	11.9	1,103.1	15.4	-6.8%
Total	**8,629.1**	**100.0**	**7,142.6**	**100.0**	**20.8%**

The growth in the Group's own brand and retailer's private label businesses was mainly driven by the consolidation of full-year revenue from the Acquired Business[2] and the strong performance in our strategic brand of Cybex. In region APAC, the full-year revenue from the Acquired Business was consolidated in 2018 and resulted the significant growth in revenue by 62.2%, but partially offset by the decrease of Rollplay brand revenues impacted by the TRU bankrupcy and liquidation and the negative impact of the strategic closure of our Geoby brand business in late 2016/early 2017. In region EMEA, we recorded strong growth with Cybex and gb Platinum and Gold ranges by continued strong consumer reception of our brand building, new product introductions and channel expansion from 2017, which supported our revenue growth by 11.8%. Our business in region Americas declined slightly by 2.6% primarily due to the challenges in the overall juvenile market appreciably declined due to TRU/BRU's bankruptcy and huge liquidation of baby gear.

As the Blue Chip business continues to stabilize after past years of rapid decline, our revenue decreased by approximately 6.8%, from HK$1,103.1 million in 2017 to HK$1,028.1 million in 2018. These results for 2018 are within management expectations and reflect the continued close working relationship with key customers who value our outstanding manufacturing, research and development, quality, cost competitiveness and overall service capabilities. Our business relationships in this sector are stable and healthy and our overall results are a reflection of customer activities and overall timing.

1 All financial numbers in this Financial Review section are from the Group's consolidated accounts as reported.

2 The Acquired Business refers to the business acquired by the Group through the Acquisition. The Acquisition refers to the Group's acquisition of Oasis Dragon Limited which was completed on 23 October 2017.

3 Certain immaterial reclassifications were included.

MANAGEMENT DISCUSSION & ANALYSIS

COST OF SALES, GROSS PROFIT AND GROSS PROFIT MARGIN

Cost of sales increased by approximately 13.0% from HK$4,395.8 million for the year ended 31 December 2017 to HK$4,967.8 million for the year ended 31 December 2018, which was mainly in line with the growth in revenue. Gross profit for the Group increased from approximately HK$2,746.8 million for the year ended 31 December 2017 to approximately HK$3,661.3 million for the year ended 31 December 2018, and the gross profit margin increased by approximately 3.9% from approximately 38.5% for the year ended 31 December 2017 to approximately 42.4% for the year ended 31 December 2018. The improvement in gross profit margin was mainly attributable to the increased revenue contribution from our key strategic brands which has higher gross profit margin and the continued improvement in cost efficiency.

OTHER INCOME AND GAINS

Other income and gains of the Group increased by HK$57.2 million from approximately HK$41.1 million for the year ended 31 December 2017 to approximately HK$98.3 million for the year ended 31 December 2018, which was mainly attributable to the increase in gains from government grants.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses primarily consist of marketing expenses, salaries and transportation costs. The selling and distribution expenses increased by HK$876.4 million from approximately HK$1,332.5 million for the year ended 31 December 2017 to approximately HK$2,208.9 million for the year ended 31 December 2018. The increase was mainly attributable to the consolidation of the Acquired Business and after excluding the impact of the Acquired Business, the increase was mainly attributable to the increase of salaries due to increased sales forces and increase in logistics and warehousing costs mainly due to the transition of the logistic providers in region EMEA.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses primarily consist of salaries, research and development costs, professional service expenses, provision for the potential uncollectible receivables and other office expenses. The administrative expenses increased by HK$103.6 million from approximately HK$1,103.5 million for the year ended 31 December 2017 to approximately HK$1,207.1 million for the year ended 31 December 2018. The increase was mainly due to the consolidation of the Acquired Business, and after excluding the impact of the Acquired Business, the administrative expenses remain relatively stable compared with last year.

OTHER EXPENSES

Other expenses of the Group decreased to approximately HK$16.8 million for the year ended 31 December 2018 from approximately HK$39.4 million for the year ended 31 December 2017. Other expenses of the Group decreased by HK$22.6 million, which was mainly attributable to the decrease of foreign exchange losses.

OPERATING PROFIT

As a result of the foregoing, the Group's operating profit increased by approximately 4.6%, or HK$14.3 million, from approximately HK$312.5 million for the year ended 31 December 2017 to approximately HK$326.8 million for the year ended 31 December 2018.

The Group's non-GAAP operating profit increased by approximately 4.3%, or HK$17.7 million, from approximately HK$414.6 million for the year ended 31 December 2017 to approximately HK$432.3 million for the year ended 31 December 2018.

FINANCE INCOME

For the year ended 31 December 2018, the Group's finance income decreased by approximately 15.2%, or HK$0.7 million, from approximately HK$4.6 million for the year ended 31 December 2017 to approximately HK$3.9 million. The Group's finance income mainly represents interest income from bank deposits.

FINANCE COSTS

For the year ended 31 December 2018, the Group's finance costs increased by approximately 88.7%, or HK$58.1 million, from approximately HK$65.5 million for the year ended 31 December 2017 to approximately HK$123.6 million. The increase for the year ended 31 December 2018 was mainly attributable to the increased bank loans mainly for the Acquisition and the increases in LIBOR.

PROFIT BEFORE TAX

As a result of the foregoing, the profit before tax of the Group decreased by 17.5% from approximately HK$251.5 million for the year ended 31 December 2017 to approximately HK$207.5 million for the year ended 31 December 2018.

The Group's non-GAAP profit before tax decreased by approximately 11.5% from approximately HK$353.6 million for the year ended 31 December 2017 to approximately HK$313.0 million for the year ended 31 December 2018.

INCOME TAX

The Group's income tax expense was approximately HK$40.7 million for the year ended 31 December 2018, decreased by 39.3% from approximately HK$67.1 million for the year ended 31 December 2017. In 2017, the Group recorded deferred tax expenses due to the reduction of income tax rate as a result of U.S. tax reform enacted in December 2017. Excluding the one-time impact of the U.S. tax reform, the decrease in income tax expense is mainly in line with the decrease in the profit before tax.

PROFIT FOR THE YEAR

Profit of the Group for the year ended 31 December 2018 decreased by 9.5% from approximately HK$184.4 million for the year ended 31 December 2017 to approximately HK$166.8 million.

Non-GAAP profit of the Group for the year ended 31 December 2018 decreased by 12.9% from approximately HK$293.7 million for the year ended 31 December 2017 to approximately HK$255.8 million.

NON-GAAP FINANCIAL MEASURES

To supplement the consolidated results of the Group prepared in accordance with IFRS, certain non-GAAP financial measures, including non-GAAP operating profit, non-GAAP operating margin, non-GAAP profit before tax, non-GAAP profit for the year and non-GAAP net margin, have been presented in this announcement. The Company's management believes that the non-GAAP financial measures provide investors with more clear view on the Group's financial results, and with useful supplementary information to assess the performance of the Group's strategic operations by excluding certain impact of certain non-cash items, certain impact of merger and acquisition transactions, certain one-off bad debt provision and operating loss and recognition of deferred tax expenses due to the change of tax law. Nevertheless, the use of these non-GAAP financial measures has limitations as an analytical tool. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, analysis of the Company's financial performance prepared in accordance with IFRS. In addition, these non-GAAP financial measures may be defined differently from similar terms used by other companies.

MANAGEMENT DISCUSSION & ANALYSIS

The following tables set forth the reconciliations of the Company's non-GAAP financial measures for the years ended 31 December 2018 and 2017 to the nearest measures prepared in accordance with IFRS:

	Year ended 31 December 2018					
		Adjustments				
	As reported	Equity-settled share option expenses	Net fair value losses on call and put options (a)	Amortization of intangible assets and inventory appreciation (b)	One-off bad debt provision and operating losses associated with TRU/BRU	Non-GAAP
	(HK$ million)					
Operating profit	326.8	34.2	0.7	45.7	24.9	432.3
Profit before tax	207.5	34.2	0.7	45.7	24.9	313.0
Profit for the year	166.8	34.2	0.5	34.0	20.3	255.8
Operating margin	3.8%					5.0%
Net margin	1.9%					3.0%

	Year ended 31 December 2017							
		Adjustments						
	As reported	Equity-settled share option expenses	Net fair value losses on call and put options (a)	Amortization of intangible assets and inventory appreciation (b)	Transaction cost for the Acquisition	One-off bad debt provision associated with TRU/BRU	U.S. tax reform effect on deferred tax assets and liabilities (c)	Non-GAAP
	(HK$ million)							
Operating profit	312.5	8.9	2.2	35.4	27.3	28.3	—	414.6
Profit before tax	251.5	8.9	2.2	35.4	27.3	28.3	—	353.6
Profit for the year	184.4	8.9	1.6	27.5	27.3	22.7	21.3	293.7
Operating margin	4.4%							5.8%
Net margin	2.6%							4.1%

Notes:

(a) Net fair value losses on call options and put options granted to non-controlling shareholders of certain subsidiaries of the Group.

(b) Amortization of intangible assets and inventory appreciation arising from acquisitions, net of related deferred tax.

(c) Recognition of deferred tax expense in U.S. arising from the reduction of income tax rate as a result of U.S. tax reform law change enacted in December 2017.

WORKING CAPITAL AND FINANCIAL RESOURCES

	As at 31 December 2018	As at 31 December 2017
	(HK$ million)	
Trade and notes receivables (including trade receivables due from a related party)	1,108.6	1,171.7
Trade and bills payables	1,439.4	1,312.6
Inventories	1,944.0	1,861.3

	For the year ended 31 December 2018		For the year ended 31 December 2017	
	Original Business[1]	Acquired Business	Original Business	Acquired Business
	(days)			
Trade and notes receivables turnover days(1)	58	35	54	35
Trade and bills payables turnover days(2)	104	86	89	85
Inventories turnover days(3)	138	80	113	74

Notes:

(1) Trade and notes receivables turnover days = Number of days in the reporting period x (average balance of trade and notes receivables at the beginning and at the end of the period)/revenue in the reporting period.

(2) Trade and bills payables turnover days = Number of days in the reporting period x (average balance of the trade and notes payables at the beginning and at the end of the period)/cost of sales in the reporting period.

(3) Inventories turnover days = Number of days in the reporting period x (average balance of inventories at the beginning and at the end of the period)/cost of sales in the reporting period.

[1] Original Business represents the business of the Group excluding the Acquired Business.

MANAGEMENT DISCUSSION & ANALYSIS

To more meaningfully illustrate our working capital information, we separately presented the working capital turnover days of the Original Business and the Acquired Business.

The decrease in trade and note receivables was mainly attributable to collection of compensation from credit insurance company for the receivables from TRU/BRU. The trade and notes receivables turnover days of the Original Business increased slightly by 4 days to 58 days. The trade and notes receivables turnover days of the Acquired Business remained stable at 35 days.

The increase of trade and note payables was mainly attributable to the increase of the Group's purchases prepared for the production and shipments before Chinese New Year. The increase in the trade and notes payables turnover days of the Original Business was mainly due to the improvement in more favorable payment terms. The trade and notes payables turnover days of the Acquired Business remained stable at 86 days.

The increase of inventories was mainly attributable to inventories preparation for the significant order demands for first quarter of 2019 in region EMEA. The inventory turnover days of the Original Business increased by 25 days to 138 days, also primarily due to inventories preparation in region EMEA. The inventory turnover days of the Acquired Business increased slightly by 6 days.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group's monetary assets, including cash and cash equivalents, time deposit, pledged time deposits and financial assets designated at fair value through profit or loss, were approximately HK$930.4 million (31 December 2017: approximately HK$1,189.7 million).

As at 31 December 2018, the Group's interest-bearing bank loans and other borrowings were approximately HK$2,777.2 million (31 December 2017: approximately HK$2,736.8 million), including short-term bank loans and other borrowings of approximately HK$887.5 million (31 December 2017: approximately HK$1,341.7 million) and long-term bank loans and other borrowings with repayment terms ranging from three to seven years of approximately HK$1,889.7 million (31 December 2017: approximately HK$1,395.1 million).

As a result, as at 31 December 2018, the Group's net debt position was approximately HK$1,846.8 million (31 December 2017: approximately HK$1,547.1 million).

In 2018, the Group completed two tranches of 3-year term syndication loans with total facilities of US$264.0 million (HK$2,068.2 million in equivalent). The first tranche of US$164.0 million has been utilized to refinance an existing term loan and working capital loans in July and October 2018. The second tranche of US$100.0 million has been utilized to refinance an existing term loan in January 2019. With these refinances, the debt structure of the Group is optimized and relevant finance cost will be improved.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no material contingent liabilities (31 December 2017: nil).

EXCHANGE RATE FLUCTUATIONS

The Group is a multinational enterprise with operations in different countries and the money that it used to conduct its business and transaction is denominated in various currencies, and the Group uses Hong Kong dollar ("HK$") as its reporting currency, which is pegged to U.S. dollar ("US$"). The Group's revenue is mainly denominated in US$, Renminbi ("RMB") and Euro. The Group's procurement and OPEX are mainly denominated in RMB, US$ and Euro. The net exposures to foreign currency risks of the Group's operating results are mainly the US$ and Euro revenue against RMB procurement and OPEX. The Group would benefit from the appreciation of US$ and Euro against RMB but would suffer losses if US$ or Euro depreciates against RMB. The Group uses forward contracts to eliminate the foreign currency exposures.

PLEDGE OF ASSETS

As at 31 December 2018, the Group did not pledge any assets, except items described in note 28 to the financial statements.

GEARING RATIO

As at 31 December 2018, the Group's gearing ratio (calculated by net debt divided by the sum of adjusted capital and net debt; the amount of net debt is calculated by the sum of trade and bills payables, other payables and accruals, payables due to related parties and interest-bearing bank loan and other borrowings (current and non-current) less cash and cash equivalents; the amount of adjusted capital is calculated by equity attributable to owner of the parent minus hedging reserve) was approximately 45.2% (31 December 2017: approximately 44.6%).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group has a total of 12,397 full-time employees (as at 31 December 2017, the Group had a total of 15,516 full-time employees). For the year ended 31 December 2018, costs of employees, excluding Directors' emoluments, amounted to a total of HK$1,750.5 million (2017: HK$1,429.1 million). The increase in cost of employee is mainly attributable to the internal promotion of talented employees into senior or leadership roles, the recruitment of diverse talent into our global workforce and the Acquisition. The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale. The Group provides its employees with welfare schemes as required by applicable local laws and regulations.

On 5 November 2010, the Company had adopted a share option scheme ("Share Option Scheme") to incentivize or reward eligible participants for their contribution to the Group for the purpose of motivating the eligible participants to optimize their performance efficiency for the benefit of the Group, and attracting and retaining or otherwise maintaining on- going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group.

On 28 May 2018, the scheme limit of the share option scheme was refreshed such that the maximum number of shares of the Company which may be issued upon exercise of all options to be granted under the share option scheme (excluding options previously granted, outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme and any other share option scheme of the Company) to the extent of up to 10 per cent of the Shares of the Company in issue as at the date of the general meeting of the Company on 28 May 2018.

MANAGEMENT DISCUSSION & ANALYSIS

As at 31 December 2017, 50,950,000 share options were outstanding. The Company granted 100,800,000 share options on 27 March 2018 and 11,500,000 share options on 28 May 2018. Of the 100,800,000 share options granted on 27 March 2018, the grant of 75,000,000 share options were subject to shareholders' approval having been obtained and such shareholders' approval was obtained on 28 May 2018. In 2018, 28,447,333 share options had lapsed and 1,772,000 share options had been exercised. As at 31 December 2018, the outstanding share options were 133,030,667.

KEY RISKS AND UNCERTAINTIES

The Company's financial condition, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The followings are the key risks and uncertainties identified by the Company. There may be other risks and uncertainties in addition to those shown below which are not known to the Company or which may not be material now but could turn out to be material in the future.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Company adopts the "three lines of defense" model for operational risk governance: 1) the first line of defense is the business and functional management unit which is responsible for identifying and managing the risks inherent in the products, activities, processes and systems for which it is accountable; 2) a functionally independent corporate operational risk and compliance function, typically the finance or internal control department, is the second line of defense, generally complementing the business line's operational risk management activities and ensuring the first line of defense is properly designed, in place, and operating as intended; 3) the third line of defense is internal audit function which provides assurance on the effectiveness of governance, risk management, and internal controls. The internal audit function is also responsible for receiving whistle-blowing reports and for the follow up investigation of the alleged fraudulent activities. The internal audit function has direct reporting line to the Audit Committee. The Company recognizes that operational risks cannot be eliminated completely and that it may not always be cost effective to do so.

Business units and supporting functions in the Company are guided by their internal control policies and standard operating procedures, limits of authority and reporting framework which are updated in response to business changes or business needs from time to time. The Company will identify and assess key operational exposures from time to time and report such risk issues to senior management as early as possible so that appropriate risk response can be taken.

Ability to attract, retain and motivate key personnel and talents with appropriate and required skills, experience and competence in a tightening talent market could lead to the risk of impacting the Company's operating and financial performance. The Company will continue to assess and enhance our remuneration, training and career development policy and system to attract, retain and motivate suitable talents.

BUSINESS RISK

The Company's product market is highly fragmented and competitive worldwide. The Company faces competition primarily from third-party local juvenile product brand owners in the mass market and owners of international brands in the mid to high end market. Failure to maintain the Company's competitive position may materially adversely affect our business, financial condition, results of operations and prospects. Furthermore, change of the overall market condition including but not limited to macroeconomic conditions and applicable regulations may also materially adversely impact the Company's sales, cost, expenses and profitability. The Company seeks to mitigate these potential adverse impacts through strategies such as safeguarding market competitiveness of the full range product portfolios, strengthening extensive global sales network, broadening customer base and geographical locations by leveraging the three home markets of the Company anchored in the three main continents, i.e. APAC, EMEA and Americas, and continual innovations and commercialization of cutting edge products to sustain market leadership.

FINANCIAL RISK

In the course of business operations, the Company is exposed to a variety of financial risks, including but not limited to market, liquidity and credit risks. The currency environment, interest rates cycles and mark to market value of derivative financial instruments may pose significant risks to the Company's financial condition, results of operations and businesses. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects of these risks with a material impact on the Company's financial performance.

Market risk is the risk that the Company's earnings and capital or its ability to meet its business objectives will be adversely affected by movement in foreign exchange rates, interest rates and equity prices. The Company has transactional currency exposure which arises from sales or purchases by operating units in currencies other than the units' functional currency. The Company closely monitors the relative foreign exchange positions of its assets and liabilities and has developed a complete set of foreign exchange management policies, processes and mechanism to mitigate foreign currency risk, such as negotiation of appropriate commercial terms and use of derivative financial instruments to hedge these risk exposures.

Financing risk is the potential that the Company will be unable to meet its obligations when they fall due because of an ability to obtain adequate funding or liquidate assets. In managing financing risk, the Company monitors cash flows and maintains an adequate level of cash and credit facilities to ensure the ability to finance the Company's operations and reduce the effects of fluctuation in cash flows.

Credit risk is the risk of losses arising from a counterparty defaulting on an obligation which will result in an economic loss to the Company. It arises from manufacturing and sales businesses and other activities undertaken by the Company. The Company's exposure to credit risk for its businesses arises primarily from its customers. New customers are subject to credit evaluation while the Company continues to monitor its existing customers, especially those with repayment issues. Adequate credit insurance schemes are in place and managed centrally at group level to mitigate default impacts. The bank balances are deposited with creditworthy banks with no recent history of default.

Goodbaby International

DIRECTORS & SENIOR MANAGEMENT

DIRECTORS & SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTORS

SONG Zhenghuan (宋鄭還), aged 70, is the chairman and executive director of the Company. He was also the chief executive officer of the Company from listing to 15 January 2016. With more than 28 years of experience in the juvenile products industry, Mr. Song is the founder and primarily responsible for our group's overall strategic direction and the management of the Group's business. Mr. Song majored in mathematics and graduated from Jiangsu Teachers University (江蘇師範學院) in 1981 with a certificate of graduation. Prior to establishing the Company, Mr. Song was a teacher in Lujia Middle School in Kunshan City from 1973 to 1984 and was the Vice Principal from 1984 to 1993. Between 1989 and 1993, Mr. Song was also in charge of a factory run by Lujia Middle School, the predecessor of Goodbaby Group Co., Ltd., which is a major founding shareholder of our Group. In 1989, Mr. Song invented the first "push and rock" stroller and subsequently founded our Group to engage in the design, manufacture and marketing of strollers under the 好孩子 Goodbaby brand in China. Because of Mr. Song's outstanding achievements, he was awarded the Ernst & Young Entrepreneur of the Year Award (安永企業家獎) for the Greater China region in 2007. In 2008, Mr. Song was awarded the "Chinese Toy Industry's Outstanding Achievement Award" (中國玩具行業傑出成就獎) by the China Toy Association. In 2013, Mr. Song was selected as winner of Walter L. Hurd Executive Medal 2013 by the Walter L. Hurd Fo.

Mr. Song is currently a director of the following companies in the Group:

(i) Goodbaby Child Products Co., Ltd.*;
(ii) Ningbo Goodbaby Child Products Co., Ltd.*;
(iii) Paragon Child Products Co., Ltd.;
(iv) Goodbaby Children's Products, Inc.;
(v) Goodbaby (Hong Kong) Limited;
(vi) Shanghai Goodbaby Fashion Co., Ltd;
(vii) Magellan Holding GmbH;
(viii) Goodbaby US Holdings, Inc.;
(ix) Serena Merger Co., Inc.;
(x) WP Evenflo Holdings, Inc.;
(xi) Evenflo Company, Inc.;
(xii) Evenflo Asia, Inc.;
(xiii) Lisco Feeding, Inc.;
(xiv) Lisco Furniture, Inc.;
(xv) Goodbaby (Europe) Group Limited;
(xvi) Evenflo Hong Kong Limited;
(xvii) Pacquita Limited;
(xviii) Rollplay (Hong Kong) Co., Limited;
(xix) OASIS DRAGON LIMITED;
(xx) Goodbaby Retail & Service Holdings Company;
(xxi) Goodbaby (China) Retail & Service Company;
(xxii) Goodbaby (Fuyang) Commercial Co., Ltd*; and
(xxiii) Goodbaby Europe Holdings Limited.

Mr. Song is an indirect shareholder and director of Cayey Enterprises Limited and Pacific United Developments Limited ("PUD"), both of which are substantial shareholders of the Company.

Mr. Song is also a shareholder and a director of Sure Growth Limited, a substantial shareholder of the Company.

Mr. Song is the spouse of Ms. Fu Jingqiu, the non-executive director of the Company.

* *For identification purpose only*

Martin POS, aged 49, is an executive director and chief executive officer of the Company responsible for the Group's strategy implementation and overall management, leading all the Group's business units and functions across each continent, comprising of technical services, supply chain and manufacturing, brand portfolio management, international distribution, national distribution and the Group's central services. Mr. Pos is the founder of the world's leading high-end child car seat brand Cybex. He is an entrepreneur with over 21 years of industry experience including the development and management of premium lifestyle brands, most notably the global distribution, design and development of premium baby products. Following the merger of Cybex in early 2014, Mr. Pos was appointed as the executive director of the Company in March 2014 primarily responsible for the management of portfolio of global brands for our company. In December 2014, Mr. Pos was appointed as the deputy chief executive officer. In January 2016, Mr. Pos succeeded Mr. Song as the chief executive officer of the Company.

XIA Xinyue (夏欣躍), aged 49, was appointed as an executive director of the Company on 10 November 2017. Mr. Xia is responsible for the Groups global supply chain strategy and its execution, including production, procurement and logistic. Mr. Xia has extensive management experience in automotive industry for over 25 years. He was the president of the China division of the Faurecia Automotive Seating Business Group for more than 6 years managing 15 factories before he joined our Group. Prior to this, he served various positions within Faurecia Automotive Seating Business Group China division from plant general manager to deputy general manager of the China division. Before he joined Faurecia China in December 2004, Mr. Xia ever worked for different international companies of automotive industry in China. Mr. Xia obtained a bachelor's degree in Tele-Communication Engineering from the Shanghai Tiedao University in 1992. He also obtained a master of business administration degree from the DongHua University in 2001 and a doctorate degree in management science from the Shanghai Jiao Tong University in 2007.

Mr. Xia is currently a director of the following Group companies:

(i) Paragon Child Products Co., Ltd;
(ii) Goodbaby Child Products Co., Ltd*;
(iii) Ningbo Goodbaby Child Products Co., Ltd*;
(iv) EQO Testing and Certification Services Co., Ltd. (formerly known as Jiangsu EQO Testing Services Co., Ltd)*;
(v) Cybex (China) Child Product Co.,Ltd; and
(vi) Goodbaby Child Products Pingxiang Co., Ltd.

* *For identification purpose only*

DIRECTORS & SENIOR MANAGEMENT

LIU Tongyou (劉同友), aged 51, was appointed as an executive director of the Company on 21 February 2017 and Regional Chairman APAC on 15 July 2017. He is responsible for direct supervision and management of Group's finance, internal audit, IT, legal, investor relationship and M&A, and development and implementation of strategy and target for these areas in his direct supervision and management. Mr. Liu started to support the Group from 1994 and formally joined the Group in 1996. Mr. Liu was appointed as the Group's Chief Finance Officer in 2010 being responsible for the Group's finance, internal audit, legal affairs, investor relationship and M&A plus relatively new responsibility, IT matters. Before he was appointed as the Group's Chief Finance Officer, he had been our Vice President and responsible for finance management, internal audit and legal matters of the Group. Mr. Liu has over 20 years of experience in corporate finance, legal and business management. Mr. Liu received his bachelor's degree of science in 1989 and graduated from Tianjin University of Finance and Economics (天津財經大學) with a Master's degree in economics in 1992. Mr. Liu worked for a famous Economist, Jiang Yiwei (蔣一葦), as his academic secretary in 1992. He joined the Beijing Standard Consultancy Company (北京標準股份制諮詢公司) in 1993 as the business director and responsible for consulting on the restructuring as well as listing consultancy of a number of Chinese enterprises, including Haier Electric Appliance Company and Hainan Airlines Company.

Mr. Liu is currently a director of the following Group companies:

(i) Goodbaby (Hong Kong) Limited;
(ii) Goodbaby Child Products Co., Ltd*;
(iii) Paragon Child Products Co., Ltd;
(iv) Ningbo Goodbaby Child Products Co., Ltd*;
(v) EQO Testing and Certification Services Co., Ltd. (formerly known as Jiangsu EQO Testing Services Co., Ltd)*;
(vi) Goodbaby Czech Republic s.r.o.;
(vii) Columbus Trading-Partners Japan Limited;
(viii) Goodbaby Europe Holdings Limited; and
(ix) Kunshan Goodbaby Yijia Retail Co., Ltd*.

Mr. Liu is also a director of PUD, a substantial shareholder of the Company.

Mr. Liu is a shareholder and director of Silvermount Limited. Mr. Liu is also a shareholder of Sure Growth Investments Limited, a substantial shareholders of the Company.

* *For identification purpose only*

Michael Nan QU (曲南), aged 51, was appointed as an executive director of the Company since 18 March 2014 and chairman for the Northern and Southern markets since 15 July 2017. Since December 2014, Mr. Qu has been primarily responsible for our Blue Chip Customers worldwide, working in a leadership role for the American market. Prior to this, Mr. Qu was our company's vice president, primarily responsible for managing key overseas accounts and strategic overseas resources. Mr. Qu joined us in 1994 and he is one of the founding members of the overseas business of the Group. Mr. Qu studied economics in the Economics School of Peking University from 1986 to 1989. He then went to the United States to study business administration at George Mason University from 1989 to 1992.

Mr. Qu is currently a director of the following companies in the Group:

(i) Goodbaby Children's Products, Inc.
(ii) Goodbaby (Hong Kong) Limited;
(iii) Goodbaby US Holdings, Inc.;
(iv) Serena Merger Co., Inc.;
(v) WP Evenflo Holdings, Inc.;
(vi) Evenflo Company, Inc.;
(vii) Evenflo Asia, Inc.;
(viii) Lisco Feeding, Inc.;
(ix) Lisco Furniture, Inc.;
(x) Columbus Trading – Partners USA Inc.;
(xi) Goodbaby Canada Inc. (formerly known as Evenflo Canada Inc.);
(xii) Evenflo Hong Kong Limited;
(xiii) Muebles Para Ninos De Baja, S.A. De C.V.; and
(xiv) Goodbaby Europe Holdings Limited.

Mr. Qu is also an executive vice president of Goodbaby Children's Products, Inc.

Mr. Qu is a shareholder of Sure Growth Investments Limited, a substantial shareholder of the Company.

NON-EXECUTIVE DIRECTORS

FU Jingqiu (富晶秋), aged 67, was appointed as a non-executive director of the Company on 10 November 2017. With her over 30 years of extensive experience in retail and distribution of juvenile products in China, Ms. Fu provides business operation guidance and advisory consulting services to the Group for development and management of its business in China market. Ms. Fu is the co-founder of Goodbaby China Holdings Limited (together with its subsidiaries collectively referred to "CAGB Group") and is now primarily responsible for the overall business management and strategic development of CAGB Group. Before founding of CAGB group, Ms. Fu was the vice president of Goodbaby Child Products Co., Ltd. ("GCPC"), from February 1993 to July 2010, where she was primarily responsible for retail and distribution of GCPC products in China market.

Ms. Fu is also a director of Shanghai Goodbaby Fashion Co., Ltd, Goodbaby (China) Retail & Service Company, Kunshan Goodbaby Yijia Retail Co., Ltd.* and Goodbaby (Nantong) Fasion Co., Ltd*.

Ms. Fu is an indirect shareholder and a director of Cayey Enterprises Limited and PUD, both of which are substantial shareholders of the Company.

Ms. Fu is a Shareholders of Sure Growth Investments Limited, a substantial shareholder of the Company. Ms. Fu is also an indirect Shareholder and a director of Rosy Phoenix Limited, a substantial shareholder of the Company.

Ms. Fu is the spouse of Mr. Song Zhenghuan, the chairman and executive director of the Company.

* *For identification purpose only*

HO Kwok Yin, Eric (何國賢), aged 62, was appointed as a non-executive director of the Company on 1 February 2013. Mr. Ho was admitted as a solicitor in England and Wales in 1987 and as a solicitor in Hong Kong in 1988. He was a founding partner of Sidley Austin in Hong Kong and remained a partner of the firm until his retirement in 2010. Mr. Ho has over 30 years of experience in the legal profession with related expertise in international mergers and acquisitions and private equity transactions. Mr. Ho received a Bachelor of Social Science Degree from the Chinese University of Hong Kong in 1980.

DIRECTORS & SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Iain Ferguson BRUCE, aged 78, was appointed as an independent non-executive director of the Company on 5 November 2010. Mr. Bruce joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the senior partner of KPMG from 1991 until his retirement in 1996, and served as chairman for KPMG Asia Pacific from 1993 to 1997. He has been a member of the Institute of Chartered Accountants of Scotland since 1964 and is a fellow of the Hong Kong Institute of Certified Public Accountants. He is also a fellow of The Hong Kong Institute of Directors and Hong Kong Securities and Investment Institute. Mr. Bruce was an independent non-executive director of China Medical Technologies, Inc,. a company listed on NASDAQ, up to 3 July 2012. He was also an independent non-executive Director of Vitasoy International Holdings Limited and retired from that company's board on 4 September 2014. He was the Chairman of KCS Limited from June 2003 to 1 August 2015. He resigned as an independent non-executive director of Sands China Ltd., a company listed on the Stock Exchange, on 11 March 2016. He also resigned as a non-executive director of Noble Group Limited, a company listed on The Singapore Exchange Securities Trading Limited, on 11 May 2017, and resigned as an independent non-executive director of Citibank (Hong Kong) Limited on 2 August 2017.

Mr. Bruce is currently a director of the following listed companies:

(i) independent non-executive director of South Shore Holdings Limited (formerly known as The 13 Holdings Ltd.), a company listed on the Stock Exchange;
(ii) independent non-executive director of Tencent Holdings Limited, a company listed on the Stock Exchange;
(iii) independent non-executive director of Wing On Company International Limited, a company listed on the Stock Exchange;
(iv) non-executive director of Yingli Green Energy Holding Company Limited, a company listed on the New York Stock Exchange.

Mr. Bruce is an independent non-executive director of MSIG Insurance (Hong Kong) Limited. Mr. Bruce has over 51 years of experience in the accounting profession and possesses the accounting and related financial management expertise required under rule 3.10(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

SHI Xiaoguang (石曉光), aged 72, was appointed as an independent non-executive director of the Company on 5 November 2010. Mr. Shi is the consultant of China Toy & Juvenile Products Association since 26 March 2015. In January 2012, Mr. Shi became the member of the Governance Board of the ICTI CARE Foundation. Mr. Shi has been elected as a new director of the ICTI CARE Foundation representing China since June 2016. Mr. Shi was formerly the chairman of China Toy & Juvenile Products Association (中國玩具和嬰童用品協會) (formerly known as the China Toy Association (中國玩具協會)) and a director of the International Council of Toy Industries since 2005. In October 2000, Mr. Shi was appointed as the vice-chairman of the National Technical Committee of Standardization for Toys by the General Administration of Quality Supervision Inspection and Quarantine. China Toy & Juvenile Products Association routinely provides information and holds training seminars on toy safety, product design and market development. The responsibilities of China Toy & Juvenile Products Association include recommending the safety standards and/or regulations of durable juvenile products to recommend the Group designs and manufactures to recommending the safety standards and/or regulations of other general toys and related products in the industry. Mr. Shi graduated from Beijing University of Chemical Technology (北京化工大學) (formerly known as Beijing College of Chemical Technology (北京化工學院)) with a Bachelor's degree in chemical apparatus and engineering in July 1974. Mr. Shi served as the vice-chairman of the department of general administration of The Ministry of Science and Technology from 1985 to 1987. He became a certified engineer in the PRC in September 1987, as granted by the State Scientific and Technological Commission (國家科學技術委員會). From November 1987 to November 1990, he served as the deputy general of China National Scientific Instruments and Materials Corporation (中國科學器材公司). Mr. Shi was appointed as the chairman of the service centre of The Ministry of Light Industry in 1989. From 1993 to 2007, he served as the general manager of China National Arts & Crafts (Group) Corporation (中國工藝美術集團公司) (formerly known as China National Arts & Crafts Corporation (中國工藝美術總公司)).

CHIANG Yun, Rachel (張昀), aged 51, was re-designated as an independent non-executive director of the Company with effect from 23 May 2014. Ms. Chiang was a non-executive director of the Company for the period from 15 November 2007 to 22 May 2014 and a director of the Company for the period from 14 July 2000 to 14 November 2007. Ms. Chiang has over 25 years of private equity investment experience in Asia and is now the Founding Managing Partner of Prospere Capital Limited. She was a founding managing partner of the private equity business of Pacific Alliance Group ("PAG"). Prior to PAG, Ms. Chiang was a vice president of AIG Global Investment. Ms. Chiang is an independent non-executive director of Sands China Ltd and Pacific Century Premium Developments Limited, both companies are listed on the Stock Exchange. Ms. Chiang was also appointed as a member of the Audit Committee and the Nomination Committee of Sands China Ltd on 14 October 2009 and 30 December 2016 respectively. In addition, Ms. Chiang was appointed as a member of the Audit Committee as well as the Remuneration Committee of Pacific Century Premium Developments Limited on 6 May 2015. Ms. Chiang has been appointed as an independent non-executive director of Merlin Entertainments Plc., a company listed on London Stock Exchange, on 1 January 2016. Ms. Chiang has also been appointed as a member of the Audit Committee and Health, Safety and Security Committee of Merlin Entertainments Plc. on 24 February 2016. Ms. Chiang received her degree of executive master of business administration from The Kellogg Graduate School of Management of North-western University in the U.S. and Hong Kong University of Science and Technology in 1999. Ms. Chiang also received her Bachelor of Science degree, cum laude, from Virginia Polytechnic Institute and State University in the U.S. in 1992.

JIN Peng (金鵬), aged 43, was appointed as an independent non-executive director of the Company on 21 February 2017. Mr. Jin has over 18 years of experience in technology investments, entrepreneurship, financial advisory and corporate management. Mr. Jin started his career in 1998 as a member of Bear Stearns Asia's New Media & Telecom group. In 2000, Mr. Jin joined 21Vianet Group Inc. (NASDAQ: VNET) as an executive vice president where he was responsible for overseeing business development, product, marketing and international sales and was later appointed as a chief financial officer. From 2003 to 2007, Mr. Jin served as a partner in CEC Capital Group (formerly known as China eCapital Corporation) where he provided fund raising, merger and acquisition advisory services for growth stage companies in the PRC. In 2008, Mr. Jin co-founded Keytone Ventures, a venture fund focused on early stage technology investment opportunities with a total asset under management of US$420 million. Mr. Jin left Keytone Ventures in 2014 to start Emerge Ventures, a venture studio specializing in mostly seed and angel investments and incubating technology startups. Mr. Jin was appointed as Chief Operating Officer and Secretary of Bison Capital Acquisition Corp. (NASDAQ: BCACU) on 20 December 2016. In addition, Mr. Jin was appointed as an Executive Director of Cinedigm Corp. (NASDAQ: CIDM) on 1 November 2017. Mr. Jin obtained a bachelor's degree with a dual major in Finance and Information Systems from the New York University in 1998.

Save as otherwise disclosed, there is no relationship between any members of the Board except that Ms. Fu Jingqiu is the spouse of Mr. Song Zhenghuan, and no information relating to the directors which is required to be disclosed pursuant to Rules 13.51(2) and 13.51(B)(1) of the Listing Rules.

DIRECTORS & SENIOR MANAGEMENT

SENIOR MANAGEMENT

Johannes SCHLAMMINGER, aged 40, is the Executive Vice President Group Brand Portfolio Management and the CEO of the strategic brand Cybex. He joined Cybex in 2010 and has held various management positions within the Company. In November 2016, Mr. Schlamminger was appointed as CEO of Cybex and in November 2017, he was appointed as Group's Executive Vice President responsible for group brand portfolio management while continuing his role as CEO of Cybex as well as supporting product development and international sales for gb brand durable product. Prior to this, Johannes had worked as Head of Channel Business for ZF Electronics, a supplier of computer devices and electronic automotive parts, and was a professional basketball player at BBC Bayreuth. Through the many positions he was holding, Johannes was able to gain strong commercial and retail experience in the global juvenile industry. Paired with his excellent capabilities in customer understanding and attention to detail, this acquired knowledge lead to an exceptional commercial and operational record.

Rongfen JIANG (姜蓉芬), aged 46, is the CEO of the China market business and the CEO of the strategic brand gb. Ms. Jiang took over the responsibility for the group's business development in China as CEO of the China market business since November 2018. Additionally to this role, Ms. Jiang is also responsible for development of the gb brand globally as CEO of gb. Ms. Jiang joined the Group in February 2016 as General Manager of gb branded baby care business. Given her proven track record of achieving fast and profitable growth for the baby care business for two consecutive years, Ms. Jiang was then promoted to Senior Vice President to assume responsibility for the business of all the gb branded product categories in China. Before Ms. Jiang joined the Group, she had more than 15 years of experience in managing international fashion brands and retailing in China market.

Jon CHAMBERLAIN, aged 58, is the CEO of the strategic brand Evenflo. Mr. Chamberlain joined the Group in January 2017, bringing his proven track record of success in the juvenile industry. Mr. Chamberlain served as president of Americas for Britax from 2007 to 2015, leading a period of dramatic growth and profitability. Before joining Britax, Mr. Chamberlain served as president for Irwin Tools, a division of Newell Rubbermaid, and President of Swingline Tools, a division of ACCO Brands. Mr. Chamberlain holds a Masters in Business Administration from Loyola University in Maryland.

COMPANY SECRETARY

HO Siu Pik (何小碧), is an Executive Director of Corporate Services of Tricor Services Limited ("Tricor"), a global professional services provider specializing in integrated Business, Corporate and Investor Services. Ms. Ho has over 20 years of experience in the corporate secretarial field. She has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Ho is a Chartered Secretary and a Fellow member of both The Hong Kong Institute of Chartered Secretaries ("HKICS") and The Institute of Chartered Secretaries and Administrators ("ICSA") in the United Kingdom. She is a holder of the Practitioner's Endorsement from HKICS.

Goodbaby International

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OVERVIEW

This is the annual environmental, social and governance (hereinafter the "ESG") report published by Goodbaby International Holdings Limited (referred to as the "Group" or "we" or "us" herein), with the focus on disclosing the Group's ESG performance aspects. This report covers the financial year from 1 January 2018 to 31 December 2018 (hereinafter the "Reporting Period").

BASIS OF PREPARATION

This report is prepared based on the revised Guidelines on Environmental, Social and Governance contained in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the "Hong Kong Stock Exchange") as published in December 2015 (hereinafter referred to as the "Guidelines"). The reporting contents covered herein are in compliance with the "comply or explain" principle required in the Guidelines.

This report is made based on the Guidelines, which include identifying and listing out important stakeholders, identifying and listing out important ESG-related issues, determining the scope of ESG report, collecting relevant materials and data, and preparing the report based on above referenced information.

REPORTING SCOPE AND BOUNDARIES

Unless otherwise stated, the policies, declarations and data in this report basically cover the Group's members, as well as Oasis Dragon Limited, which is newly incorporated into the scope of the Group, and its subsidiaries, including Goodbaby (China) Retail & Service Company Limited* (好孩子(中國)零售服務有限公司). Meanwhile, the key environmental performance indicators also cover our plants (eleven) and offices across the globe as well as the self-operated outlets in the PRC.

DATA SOURCES AND RELIABILITY GUARANTEE

The materials and matters in this report are mainly from the Group's statistical reports and related documents. Matters contained herein are true and accurate with non-misleading statements in all material aspects.

CONFIRMATION AND APPROVAL

After receiving approval of the management, the report was approved by the Board of Directors on 25 March 2019.

ESG MANAGEMENT

The Group has established and gradually improved its responsible governance structure in accordance with the Rules Governing the Listing of Securities on the Main Board of the Hong Kong Stock Exchange as well as the Company Law of the People's Republic of China and other relevant laws, regulations and regulatory documents of the places where the Group operates. Under the Guidelines issued by the Hong Kong Stock Exchange, we have incorporated our ESG performance, relevant to all stakeholders, into our corporate governance system and various core procedures, to build up risk management capability, thereby enhancing our comprehensive competitiveness and helping advance our sustainable development.

ESG GOVERNANCE

ESG Governance Objectives

The Group aims at achieving a stable and sustainable corporate governance and making positive contributions to the sustainable development at a general social level while delivering returns to investors. During the Reporting Period, we incorporated key ESG performance indicators into our daily operations, and gradually normalised ESG governance for a more transparent, agile and stronger environment.

* *For identification purpose only*

ESG Governance Philosophy

The Group has been adhering to our mission of improving children's living environment and quality of life. In accordance with our core values of "imagination, passion, strength, trust, respect and love", we proactively assume corresponding social and environmental responsibilities:

- **Imagination:** Believing in the value of creativity and imagination, we encourage employees to be open-minded and innovative;
- **Passion:** Passion can help us overcome difficulties;
- **Strength:** Our strength makes us resilient;
- **Trust:** Trust and team spirit are our work foundation;
- **Respect:** We respect our employees, business partners, customers and other stakeholders;
- **Love:** We create our products and serve our customers with energy and love while assuming our responsibilities to protect the planet.

ESG Governance Structure

To ensure the routine supervision and continuity of ESG governance, the Group has set up a dedicated ESG working group, which is responsible for regularly reporting to the Board of Directors through the CEO, so as to assist in the evaluation and determination of the appropriateness and effectiveness of the Group's ESG risk management and internal control systems. The ESG working group consists of the major person-in-charge of each relevant department under the overall leadership of the Legal and Compliance Department of the Group.

The three-tier ESG governance structure currently adopted by the Group and the rights and duties of each tier are as follows:

Board of Directors	CEO	ESG Working Group
• Assess and determine the Group's ESG risks; • Ensure that the Group sets up appropriate and effective ESG risk management and internal control systems; • Consider and decide ESG objectives; • Approve ESG-related policies; • Approve ESG report.	• Implement ESG risk management and internal control system; • Guide the work of the ESG working group; • Develop ESG-related policies, and submit the same to the Board of Directors for consideration and approval; • Confirm the accuracy of performance indicator data in the ESG Report; • Submit ESG report to the Board of Directors for approval.	• Establish and maintain ESG related policies; • Supervise the implementation of the the ESG policies and achievement of ESG objectives; • Assign responsible personnel to collect ESG-releted materials and prepare report; • Regularly report to the Group's management to assist in the evaluation and determination of the accuracy and effectiveness of the Group's ESG risk management and internal control systems.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

COMMUNICATION WITH STAKEHOLDERS

We are dedicated to establishing effective and diversified channels for the communication with all stakeholders, as we believe a two-way, transparent and regular communication will help forge mutual trustworthy and respectful partnerships and lay a solid foundation for the sustainable development of the Group. In the preparation of this report, we have identified the key stakeholder groups who have decision-making power or influence over the Group and are closely related to the Group (e.g., contractually or geographically related), details of which are as follows:

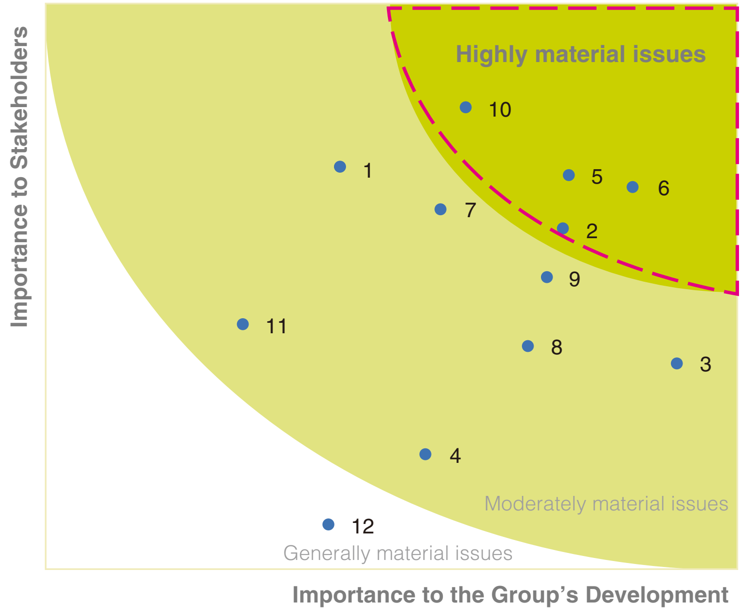
- Employees
- Shareholders/investors
- Government/regulatory authorities
- Distributors
- Suppliers
- Consumers
- Media
- Communities

We actively communicate with all stakeholders through consistently improved communication channels to understand their key concerns so that the views of stakeholders are better conveyed. Based on such views and concerns, we will review the effectiveness of our actions.

Stakeholder Group	Concerns	Communication Channel	Frequency
Employees	Employee health and safety Employee relation and development Employee equity	Interview with employees/internal email Internal WeChat account	From time to time
Shareholders/investors	Business development Corporate governance	General meeting/Investor meeting Results announcement Press release and announcement	The general meeting is held once a year The rest is made from time to time
Government/regulatory authorities	Resources, energy consumption and emission reduction Pollutant discharge and greenhouse gas emissions	Field research, meeting Written applications, explanations and reports	From time to time
Suppliers	Business development Supplier's environmental and health performance	Field research Supplier assessment/supplier conference	From time to time The supplier conference is held once a year
Distributors	Product quality Innovation and intellectual property rights management	Field research/new product research and development and introduction Written reports/email	From time to time
Consumers	Product and service quality Product innovation	Official website Offline stores WeChat account	From time to time
Media/social organisations	Product quality Community relation maintainance and public welfare	Press release/announcement Interview/meeting	From time to time

MATERIALITY

During the Reporting Period, an ESG questionnaire was distributed to each department of the Group for collection and summarisation of the concerns of all internal stakeholders. Currently, we held over 20 in-depth interviews with external stakeholders to understand their key concerns and expectations regarding the ESG practices carried out by the Group. Through benchmarking analysis and exploration of media public opinions, we identified the list of material issues of the Group. The matrix of materiality for the year was derived after prioritizing the various issues identified during the questionnaire, interview process and valuating their impact on the Group's strategic operations and our stakeholders.



Material Issues		No.
Issues on business and governance	Business development	1
	Corporate governance	**2**
	Innovation and intellectual property rights management	3
	Integrity operation and anti-corruption	4
	Products and services	**5**
Environmental issues	**Resources, energy consumption and emission reduction**	**6**
	Pollutant discharge and greenhouse gas emissions	7
Issues on employees	Employee equity	8
	Employee health and safety	9
	Employee relation and development	**10**
Social issues	Supplier's environment and health performance	11
	Community relation maintainance and public welfare	12

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTEGRITY OPERATION

To achieve a high-standard and high-level corporate governance and fully uphold the interests of shareholders and stakeholders as a whole, we control operational risks in an all-round way in strict compliance with the laws and regulations and relevant provisions of the regulatory authorities of the jurisdictions where we operate, with a view to developing an operating environment featuring honesty, integrity and fairness.

RISK MANAGEMENT SYSTEM

We aim at establishing and maintaining a robust risk management and internal control operating environment of the Group. Currently we have formulated Risk Management and Internal Control Guidelines, major Corporate Governance policies, embedded risk management into core operating policies and procedures as well as conducted regular risk assessment reviews across all business units, functions and regions of the Group. In the future, we will further expand the coverage of risk management and closely cater for ESG risk control needs to build a stronger and more systematic risk management system.

INTEGRITY MANAGEMENT

During the business operations conducted in various jurisdictions, we strictly abide by national anti-corruption laws and regulations and absolutely have zero tolerance for any form of bribery or corruption. We have developed the Anti-Corruption Policy that explicitly requires our employees and other external interested persons to abide by the anti-corruption laws and regulations of each jurisdiction. Such policy explicitly prohibits any behavior of seeking improper personal interests via bribery, extortion, fraud or other means, and also contains strict requirements on receipt of gifts, procurement, donations and other activities. We advocate the Anti-Corruption Policy to our employees and other external interested persons, in order to earnestly cultivate their awareness of our integrity principle to ensure any potential illegal action is timely detected and addressed, we have set up a Whistle-Blowing Policy which is supervised and implemented by the Audit Committee. The Whistle-Blowing Policy encourages employees, customers, suppliers, and other stakeholders to report suspicious activity. During the Reporting Period, we were not involved in any corruption related lawsuits.

FAIR COMPETITION

We adhere to the principle of business ethics and emphasize fair competition. In our market operations, we pay close attention to the laws, regulations and rules against improper competition of all jurisdictions, and object to monopoly, illegal competition, destroying of market environment, violation of competition rules and other unfair competition methods, thereby maintaining a healthy and sound competition relationship with our peers.

PURSUIT OF PRODUCT QUALITY

The Group launches high-quality products into the market on an ongoing basis leveraging on our global footprint, localised operation, remarkable R&D capability, reliable quality management and control system, structured brand mix, supported by dedicated customer service. Every day, children from thousands of families are enjoying their healthy and happy childhood by using our high-quality and high-performance products.

STABLE QUALITY

Product quality is the life of an enterprise as well as the foundation for its brand value. Since our establishment, we have been adhering to high-standard quality and safety systems and continuously improving quality and safety control measures, to render worry-free user experience for consumers.

We take into consideration product safety, reliability and manufacturability throughout all steps including product design, production and testing.

Reliable Design

We actively adopt fault design prevention, simplification design, safety design, environment stability design and ergonomic design in the product design process. In the early stages of the product planning, design and development, we begin to study the safety, reliability and manufacturability of products. Before implementing the product design, our product safety committee organises product safety assessment, and we introduce the product safety assessment in various production stages to ensure that no new products with hidden danger proceed to the next step and guarantee that the product is safe and reliable from the source.

High Quality Product

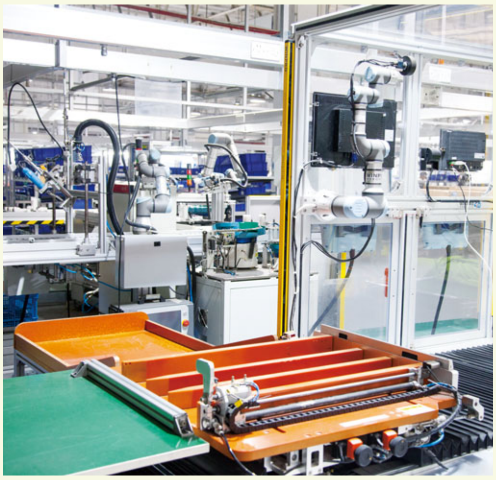
The Group's Quality Management Centre is responsible for the management and control of the supplier and organisation of product auditing, process auditing and system auditing to ensure the effectiveness of the quality control process. All of our production plants located in the PRC have obtained ISO9001 (quality management system) accreditation, and conducted production tasks in strict accordance with the product quality accreditation requirements of the target countries and regions where our products are in sale, such as the China Compulsory Certification ("CCC") and European Conformity ("CE"). To improve the quality inspection for product production links, we have adopted the FMEA ("Failure Mode and Effects Analysis"), PPAP ("Production Part Approval Process"), TQM ("Total Quality Management"), lean management and other methods to control production quality.

We have developed quality standards for products of various brands and categories as the basis for on-site product inspection. Our quality management departments at all levels assign inspection personnel to the production plants and conduct quality supervision together with the quality control personnel of the production plants during the process of production. The supervision includes routine auditing of the supplier, quality confirmation of the first piece, key process inspection, supplies check and examination, warehouse products inspection, sampling inspection, factory inspection and testing, and a comprehensive testing after fixing a date or quantity.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Upgrade Testing Technology to Assure Quality Control

We have introduced high-tech testing equipment for precise product quality control. For the production line of the production plant in Kunshan, we tested the products through CCD (Charge Coupled Device) full testing system for comparison with product standards, to ensure no flow of substandard product to the next step.



The Andon System of the production line is also a part of the mechanism for quick response to any abnormality. Such system delivers real-time feedback on the production status of each production unit, such as normal, abnormal and to be processed or processing, through three-color lights, buzzing and transfer of IT information. The system greatly reduces the time required for handling abnormalities and improves the production efficiency, and also serves as the source of data for our statistics, application, evaluation and analysis.

SICQ

品质90⁺评价证书

证书编号：QN-FCM01-001-CE00001

品质90⁺是以消费者角度，参照国内外先进标准制定的消费品质评价标准。

公　　司：上海好孩子儿童服饰有限公司
品　　牌：好孩子（Goodbaby）
产　　品：母乳实感宽口径握把吸管PPSU奶瓶（小饿魔系列）
型　　号：B80374、B80375、B80376、B80377
样品来源：以消费者身份在电商平台匿名购买
检测机构：深圳必维华法商品检定有限公司 BV

经我院评价，达到品质90⁺标准，该产品接受消费者监督，特发此证。

扫码参与监督
查阅品质档案

发证日期：2018年12月1日
有效日期：2019年12月1日

深圳市品质消费研究院

"gb care Hungry Bug" Won the Honor Award of Quality 90+ Assessment

Awarded in the "2018 First Discovery China Quality Summit Forum" organized by the Shenzhen Institute of Consumption Quality and the China Quality Consumer Assessment Alliance.

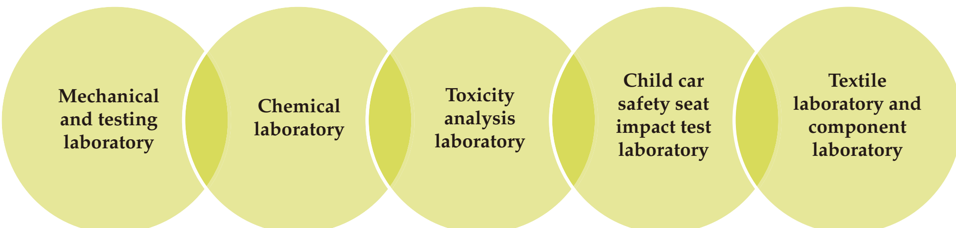
Safety Testing

Our products are closely connected with the healthy growth of babies. It is our intention to deliver the best care for babies with our products. As such, product safety is one of our top priorities.

As a member of the U.S. Juvenile Products Manufacturers Association ("JPMA"), the Automotive Manufacturers Equipment Compliance Agency ("AMECA"), the Centre For Child Injury Prevention Society ("CChIPS") and the Baby Products Association ("BPA"), we commit ourselves to improving the industry standards and advocating children's products standards and methods. We continually develop safer products through research on the prevention of child injury.

We have conducted safety and reliability testing for our products and accessories. We have established a testing centre approved by the State Administration of Market Regulation (former the General Administration of Quality Supervision, Inspection and Quarantine of the PRC) with the capability and qualification to test car seats, strollers, dining chairs, baby straps, children's activity centre and other types of products.

The Group's Testing Centre



Qualifications of the testing centre	A laboratory at national level accredited by the China National Accreditation Service for Conformity Assessment (CNAS)
	A laboratory certified by the ISO17025 ("General Requirements for the Competence of Testing and Calibration Laboratories")
	A laboratory accredited by the China Metrology Accreditation ("CMA")
	A laboratory accredited by the ECE R44 certification of the National Standards Authority of Ireland ("NSAI")
	A laboratory accredited by the Consumer Product Safety Committee ("CPSC") of the United States

Our production plants in the United States test products through impact testing, side impact testing, UV testing, misuse testing, cycle testing, chemical testing, traffic testing and other testing methods. Our product testing standards are stricter than the requirements of the US government, among which the impact intensity of our impact test is twice that set forth in the U.S. federal impact test standard.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Recall Management

According to the requirements of the Management Policy for Product Safety of the Group, we have established sound product recall management system and control procedures, and developed a recall plan. To protect the health and safety of consumers, prevent and avoid the possible risks caused by the potential defective products, we have set up a Safety Committee for overall management of matters related to product safety.

Our Safety Committee is closely monitoring the quality of all types of products which have been launched into the market:

- Complaints by customers due to health and safety risks
- Product found defective in checks by the regulatory authorities
- Product injury events reported by the media
- Protect found defective in internal checks
- Hazards caused to delivered products due to technology, changes in laws and regulations, emergencies and other factors
- Other product defect related information

If any product found defective, we will initiate investigations within 24 hours, and the Safety Committee will analyse the product and market risks. Where the product is subject to recall, we will develop and implement a recall plan based on our management policy and proposal.

During the Reporting Period, no product was recalled due to product quality reasons.

EXCELLENCE IN INNOVATION

Through establishment of a scientific Research and Develop (R&D) system worldwide, we generate innovative and high-quality designs and products that address consumer needs of mainstream maternity-infant-children products.

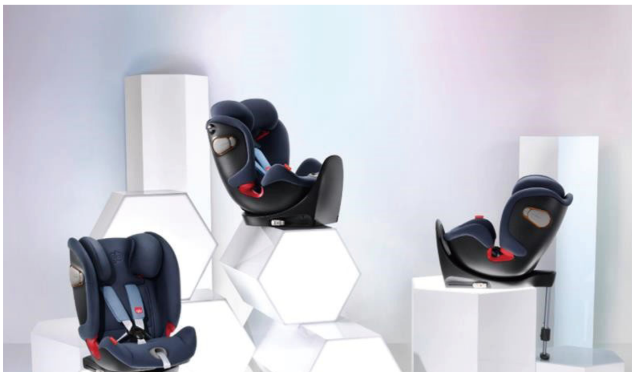
In order to further enhance our computer-aided engineering analysing ability and whole process design quality control ability, and improve the pioneering, leading and planning nature of our R&D and design, we have set up matrix-distributed R&D and designing centres for global coordination and innovation, which are located as follows:

European Union	PRC	United States
• Germany	• Kunshan	• Dayton
• Czech	• Shanghai	• Boston
• Austria		• Charlotte

As to R&D and design team building, we gathered an innovative team comprising over 450 engineers with various specialities. In October 2018, the application for establishment of a postdoctoral scientific R&D workstation by Goodbaby Child Products Co., Ltd. under the Group was approved by the Ministry of Human Resources and Social Security of the PRC and the National Postdoctoral Management Committee. The national-level postdoctoral workstation in the PRC is a national-level platform for scientific R&D owned by the Group, the establishment of which aims to flexibly attract high-level R&D talents from universities and colleges for making breakthroughs in core technologies for baby-infant products and research on generic technology breakthroughs in the industry. In the future, our R&D team will further cultivate interdisciplinary, versatile, strategic and innovative talents adapting to the social and economic development and meeting the technological and innovative needs of our product fans.

Design and R&D Achievements

The Group continuously introduces product innovation and upgrades through R&D, introduction and improvement of production technologies and improvements to overall product quality. We have set up a scientific product R&D system, continued to procure and upgrade advanced R&D equipment, and therefore delivered a number of R&D results. As at 31 December 2018, the total number of the Group's historically obtained patents reached more than 9,600.



gb serial car seat
- Applying GBES energy-absorbing technology, L.S.P. side impact protection system and EPS energy-absorbing materials to mitigate the impact on infant and children in case of accidents.

gb dining chair
- The seat and backrest are in the shape of a little sofa, and the lining is made of Sifi, a new technology material, to ensure comfortable and air permeable seating experience for babies while inhibiting bacteria.

Baby motorcycle – Manta Ray
- The toy car is driven by kids' arms and legs movement, which makes the toy car more interesting and also exercises kids' arms and legs.

Our innovative designs are also recognised in the industry with a number of honors and awards. In 2018, five products of the Group won the Red Dot Design Awards. To date, our products have cumulatively won 26 Red Dot Design Awards.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Extreme in Innovation – Red Dot: Best of the Best

SWAN, a gb carbon-fiber-frame baby stroller

- Its frame is made of carbon fiber, which is light and resilient;
- The four front and rear wheels can turn in every direction, which makes it easier for the parent to switch between forward facing and rear facing positions.

LEMO, a Cybex four-purpose-in-one baby dining chair

- Its simple structure makes disassembly and assembly convenient. Falling prevention, rounded corners and other designs carefully consider ergonomics, and the chair height is adjustable.

Other products awarded the Red Dot Awards

Baby carrier YEMA

Baby stroller BALIOS S

Baby stroller EEZY S TWIST

Development of Standards

While actively building up our R&D ability, we were delighted to share our experience and turn it into product standard, to drive the common development of the industry. During the Reporting Period:

- as a member of the Joint Secretariat of the ISO/PC310 International Commission for the Standardisation of Wheeled Child Conveyances, we gathered domestic and overseas experts to discuss and develop an international standards for wheeled child conveyances.

- the Group participated in the development of the national standards including the Production Label for Child Restraint System of Power-driven Vehicles, Model Coding Rules and Identification Number of Child Restraint System of Power-driven Vehicles, Determination of Migratable Chromium (VI) in Toy Materials, Determination of Formamide in Toy Materials, and Determination of Chromium in Toy Materials.

- as a leader in terms of technology and labeling for highway child safety seat in the industry, Goodbaby developed the initial national standard, the Child Restraint System for Aviation, through cooperation with China Academy of Civil Aviation Science and Technology, which has been submitted to the Standardization Administration of the PRC for opinions thereon in 2018.

Intellectual Property Rights Management

In strict compliance with the Trademark Law of the People's Republic of China, Patent Law of the People's Republic of China, U.S. Patent Reform Act, European Union Directive on the Enforcement of Intellectual Property Rights, and other laws and regulations regarding intellectual property rights in place where our business are operated, the Group continues to improve our capabilities at creation, application and protection of intellectual property rights while enhancing product innovation. We have set up a mature intellectual property management system, and developed and distributed the Corporate Intellectual Property Rights Management Manual, to ensure our own intellectual property rights are protected from infringement by legal means and meanwhile we will not infringe others' intellectual property rights.

During the Reporting Period, the Group was not involved in any lawsuits regarding infringement of intellectual property rights.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

TRUST OF CUSTOMERS

We render high-quality products and services to our users through industry-leading and worldwide networks and facilities. We remain consumer-centric to make consumers more satisfied and comfortable in purchasing and using our products.

Customer Service

In the PRC market, we have developed the Management Procedures for Customer Service Communications, the Management Procedures for Fault Reporting by Users and other customer service management policies based on years of our customer service experience, and established a set of internal service standards and rules. We also actively build communication bridges for customers through many channels. Apart from the existing customer service hotline, letters, sales outlets, after-sale service centres and other traditional channels. We launched a new customer service system in 2018, which connects online channels including five official WeChat accounts, two official Sina Weibo accounts and mini programs and APPs on the basis of retaining the traditional telephone channel. Such initiatives have resolved, to the maximum extent, the difficulties or inability to send pictures or videos between the customers and our customer service staff. Customer satisfaction is the most critical indicator for evaluating our product and service quality. To understand customer satisfaction towards our products and services, we carry out research on customer satisfaction annually in strict accordance with the Control Procedures for Customer Satisfaction and the Procedures for Customer Satisfaction Evaluation, and summarise improvement measures on a regular basis.

In the overseas market, we primarily provide after-sales service to our customers through retailers. Additionaly, in order to answer customer inquiries in a more efficient and accurate way, and provide pre-sales consultation and after-sales assistance, we have built a variety of contact and feedback channels such as telephone, website, email and social media. With "happy customer" as our service goal, we have established a standardised customer service management and communication process and required our customer service staff to answer customer emails and comments within 24 hours.

Complaint Followup

In the PRC market, we have developed and strictly complied with the aftersale service policy based on the Law of the People's Republic of China on the Protection of Consumer Rights and Interests. We receive complaints and suggestions from consumers through various channels, and give immediate responses and solutions thereto. During the Reporting Period, we strictly implemented the Rectification and Prevention Control Procedures, set up posts of complaint-handling experts, clarified the standards and procedures for acceptance of business-related complaints, timely followed the handling process of quality-related complaints, and required that all quality-related complaints shall be handled within 24 hours.

In the oversea market, we actively improve our product design and production processes based on the quality-related feedback from the market and customers. The procedure of discovery, inspection, improvement and solution of quality-related issues are required to be completed within 30 days.

For indirect complaints to the Group, such as the feedback made by customers to the business administration department, quality supervision department and other regulatory departments, or through Internet channels (Weibo, forum, etc.), our complaint-handling experts will also communicate with relevant customers in a timely manner, trying to get the complaints properly solved.

Customer Privacy Protection

As core data of the Group, customer information is kept strictly confidential. For customer service link, our customer service staff will maintain whole process communication with customers via the customer service system, and customer needs will be delivered to relevant business division after desensitisation. Such customer service system also technically prohibits batch query and export of customer information, which protects customer privacy to the largest extent.

In the digitalised era, the Internet greatly shortens the interpersonal distance but also brings along concerns about personal privacy security. We have formulated the Information Security Policy in strict compliance with Cyber Security Law of the People's Republic of China, the European General Data Protection Regulation and other laws and regulations of the jurisdictions in which we operate, and developed the principles concerning collection, storage and use of information on employees, customers and other business through the Internet.

GREEN OPERATION

The Group continues to improve the environmental management systems and implements environmental management works in strict accordance with the Law of the People's Republic of China on Environmental Protection, the Law of the People's Republic of China on Prevention and Control of Water Pollution, the Law of the People's Republic of China on Prevention and Control of Air Pollution, the Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Wastes, the U.S. Federal Hazardous Substances Act ("FHSA"), the U.S. Clean Air Act ("CAA"), the European Union Waste Management Act and other environmental laws and regulations of the jurisdictions in which we operate.

During the Reporting Period, the Group owned a total of eleven production plants located in Kunshan (with 7), Pingxiang and Ningbo in the PRC, Dayton in the United States as well as Tijuana in Mexico, respectively. All production plants have obtained environmental permits in relation to production and operation from the local regulatory authorities. Besides the production plants, we also operate hundreds of sales distribution platforms in total across the globe. In such operating places, we also actively promote energy conservation and consumption reduction measures to achieve the target of green operation.

REDUCTION IN ENVIRONMENTAL IMPACT

The Group has established a series of management systems and operating specifications including the Environmental Management Manual, the Environmental Management Accountability System, the Management System for Rainwater and Sewage Network, the Wastewater Management Rules, the Air Emissions Management Rules, the Waste Management Rules, the Management System for Waste Materials Treatment, the Management System for Collection and Storage of Hazardous Waste, and the Hazardous Waste Disposal Procedures pursuant to the ISO14001 environmental management system, thereby achieving effective management of waste water, exhaust gas, wastes and disposal, and laying a solid foundation for mitigating environmental risks, enhancing corporate competitiveness and realising the sustainable operation of the Group.

In 2018, the Group's production plants in Kunshan established and gradually improved the environmental self-review system, and carried out systematic self-review and self-rectification. We ensured the frequency of review and rectification (at least once quarterly, and no more than one quarter for each rectification period) through records checking and rectification measures. During the Reporting Period, to reduce pollutant discharge, we transformed the historical three painting lines into one line through technical renovation, and obtained relevant environmental permit.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Wastewater Discharge

The wastewater generated by the Group mainly comes from the production plants located in the PRC. The wastewater generated from our production will be discharged according to the regulations after properly treated, and the discharges in total and concentration both fall below that set forth in the Pollutant Discharge License and local wastewater discharge standard. We strictly monitor the pollutant indicators in production wastewater, and ensure the pollutant discharge concentration meets the standard through online wastewater testing system or regular sample testing.

The wastewater generated by our production activities conducted at Kunshan production plants is treated through multi-level materialisation, biochemical treatment process and MVR ("Mechanical Vapor Repression") concentrated water evaporation system, so that the removal rate of Chemical Oxygen Demand (COD) in wastewater reaches 75% and the nitrogen and phosphorus removals are also up to the standard stably.

In 2018, the water pollutant discharges of the Group's production plants in the PRC are as follows:

Water pollutant discharge	Total mass (tonne)
Chemical Oxygen Demand (COD)	0.563
Total nitrogen (TN)	0.202

Exhaust Gas Emissions

The major air pollutants generated by the Group also mainly come from the production plants located in the PRC, mainly including sulfur oxide, which will be systematically treated through exhaust gas treatment facilities.

In 2018, the air pollutant emission of the Group's production plants in the PRC is as follows:

Air pollutant emission	Total mass (tonne)
Sulfur oxide	0.245

Solid Waste Management

The general solid wastes generated by the Group mainly come from the general industrial waste generated by the production plants as well as the domestic waste generated in the office and sales offices. We have engaged the environmental protection department or property management company for regular clearing and transportation of such wastes. During the Reporting Period, we enhanced employees' environmental awareness through training and publicity, and advocated a paperless office environment to reduce the generation of waste.

For recyclable general solid wastes, such as waste plastics, metal scraps, waste packaging materials and other waste ancillary materials, we will recycle such wastes or engage third parties for recycling under the resource utilisation principle of "reduction, reuse and recycling (3R)".

The major hazardous wastes are waste activated carbon, waste paint residue, waste oil and spent mineral oil-water emulsion generated during our production process. We classified and fixed storage of all hazardous wastes generated during our production process and set relevant identification labels. In disposal of hazardous wastes, we commissioned qualified entities for legal disposal according to the requirements of laws and regulations, and strictly complied with the transfer of hazardous wastes in accordance with the relevant provisions to ensure that the hazardous wastes had been transferred to the disposal organisation in a safe and legal manner.

In 2018, various solid waste discharges of the Group are as follows:

Waste disposal	Total mass (tonne)	Intensity (tonne per HK$1 million revenue)
Disposal of hazardous waste	917	0.11
Disposal of non-hazardous waste (office and domestic waste)	2,032	0.24

Waste recycling	Type	Total mass (tonne)
Type of recycled non-hazardous waste	Waste plastics	783
	Metal scraps	1,852
	Waste packaging materials	1,590
	Other waste ancillary materials	478
Total non-hazardous waste recycled		4,703

EFFICIENT USE OF RESOURCES

In strict accordance with the Energy Conservation Law of the People's Republic of China, the Water Law of the People's Republic of China, the Administrative Measures for Industrial Water Conservation, the Opinions on Strengthening Industrial Water Conservation, the Management Rules for Recycling and Disposal of Waste Electrical and Electronic Products, and the U.S. Clean Water Act ("CWA"), the U.S. Energy Independence and Security Act of 2007, the U.S. Energy Policy Act of 2005 and other relevant laws and regulations of the places where we operate, the Group strictly manages resources and energies and actively promotes energy conservation and emission reduction, trying to reduce the emission of greenhouse gas during our production and operation.

Water Consumption Management

The Group utilises running water for our production and operating activities. During the Reporting Period, we continued to enhance water conservation management and assessment in office and production plants, and raised employees' water-saving awareness through publicity and education. We also recycled part of the water used for production and processing for reuse to further reduce fresh water consumption.

In 2018, the water consumed by the Group's production, office and sales offices is as follows:

Type	Total mass (tonne)	Intensity (tonne per HK$1 million revenue)
Water consumption in total	1,143,827	132.55

Energy Consumption Management

Our energy consumption mainly comes from externally-purchased electricity used for our production, office and premise. In addition, we also consume gas, diesel, natural gas and liquefied petroleum gas for the energy required for production activities and self-owned vehicles. With the objective of environmental protection and clean production for production activities, we continued to improve daily operation and enhanced technical renovation to achieve the purpose of energy conservation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2018, the Group's energy consumption and the corresponding greenhouse gas emission data are as follows:

Type		Unit	Total	Intensity (tonne per HK$1 million revenue)
Direct energy consumption	Lead-free gas Diesel Natural gas Liquefied petroleum gas	litre litre cubic metre litre	66,634 365,759 1,435,832 11,177	–
Direct energy consumption in total		tonne of standard coal equivalent	1,795	0.21
Indirect energy consumption	Externally-purchased electricity	kWh	71,681,149	–
Indirect energy consumption in total		tonne of standard coal equivalent	8,810	1.02
Energy consumption in total		tonne of standard coal equivalent	10,605	1.23

Type		Unit	Total	Intensity (tonne per HK$1 million revenue)
Greenhouse gas emission*	Scope 1	tonne	4,199	–
	Scope 2	tonne	47,180	–
	Total	tonne	51,379	5.95

* *Greenhouse gas (scope 1) mainly comes from the direct greenhouse gas emission generated by the business owned or controlled by the Group; greenhouse gas (scope 2) mainly comes from the indirect greenhouse gas emission from the Group's internal consumption of externally-purchased electricity.*

Use of Packaging Materials

Our packaging materials are mainly paperboard and plastics. We are continuously improving the utilisation efficiency of packaging materials through optimisation of product packaging designing and preferential adoption of environmentally-friendly packaging materials. During the year, on the premise of maintaining a packaging paperboard structure, we adopted corrugated paper, a new type of paper with fewer layer, which reduced the weight of packaging materials consumed per product.

In 2018, the product packaging materials used by the Group's production plants are as follows:

Type*	Total mass (tonne)	Intensity (tonne per HK$1 million revenue)
Plastics	58	0.03
Paperboard	4,054	2.13

* *Currently, it only includes the packaging materials used for production in the America. For production plants in the PRC, packing materials with over 10,000 types of specifications were used, which could not be accurately calculated during the year. In the future, we plan to make further effective calculation and disclosure of data in this region.*

Moreover, to minimise the damage to the natural environment, and maintain the sustainable development of the enterprise and society, we have developed the Environmental Hygiene Greening Management Rules in an ecologically-responsible way, to enhance greening management and maintenance.

PROMOTION OF RESPONSIBLE SUPPLY

While achieving our own sustainable development, we also actively promote the management improvement of suppliers to drive the growth of our business partners. We cooperate with suppliers under the principles of equity and mutual benefits.

The Group continues to improve the procedures for supplier introduction, assessment and management, implements the procurement mix of unified procurement by the headquarters and independent procurement by the subsidiaries, and the procurement in accordance with the Company's Supplier Guidelines, Supplier Management Control Procedures and other internal procedures.

While introducing suppliers regarding new raw materials, semi-finished products and finished products, we will conduct site appraisal on the potential suppliers based on the Site Supplier Appraisal Table. Besides product quality, prices, services and other performance, we will conduct appraisal on suppliers in respect of environmental management, working environment, health and safety, child labour and forced labour, to form a final appraisal opinion. For existing suppliers, the Group will conduct monthly and annually assessment on them on a regular basis through the following analysis:

KPI for monthly assessment
- Online qualification rate
- Number of production line disruptions
- Cooperation performance
- Quality cost sign-back rate

Results of monthly assessment
- Classified into five grades, i.e. S, A, B, C and D;
- We will warn the low-graded suppliers based on the assessment policy.

KPI for annual assessment
- Quality batch qualification rate
- On-time delivery date
- Price satisfaction
- Service satisfaction
- Number of quality-related incidents
- DPPM (Defect Parts per Million)
- Violation of laws and regulations (such as violation of environmental or labour regulations)

Results of annual assessment
- Classified into four grades, i.e. excellent, good, fair and poor;
- Further handling of relevant suppliers based on the annual assessment handling regulations;
- Companies with poor assessment results will face the risk of termination of contractual relations or partnerships.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Our assessment on suppliers ultimately aims at helping suppliers improve and enhance their internal business procedures, to achieve the common development with them. As such, we will also provide suggestions and guidance to certain suppliers with relevant needs for management and improvement.

Supplier's Environmental and Quality Management

As a manufacturer and distributor of infant-children products, we regard the safety of product raw materials as one of the most important links. We require that the quality of all production materials shall be higher than that provided in the safety regulations and the requirements for hazardous substance control of the countries where our production and sales are conducted. Moreover, we test all of the new materials and purchased materials based on the control plan for hazardous substance, to guarantee up-to-standard quality. The Group has also signed relevant agreements with the production-type suppliers. In those agreements, we set a standard on production pollutant and product hazardous substance concentration, which is compliance with, or higher than that set forth in the relevant laws and regulations of the PRC, Europe and the United States.

Supply Chain Risk Management

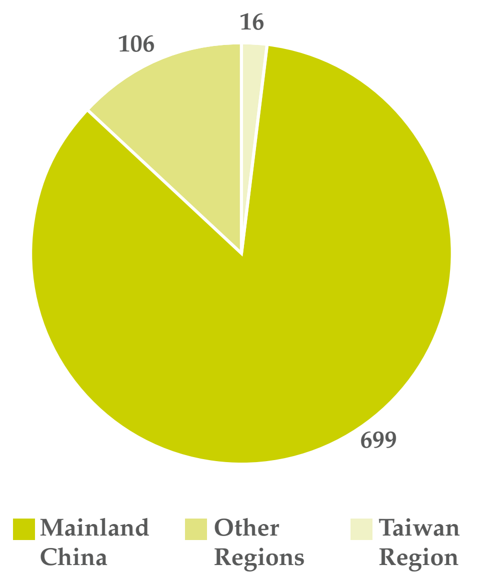
To identify and manage all risk factors in each link of the supply chain, and guarantee the routine and effective operation of the supply chain, we have developed the management procedures for risks relating to the supplies from the suppliers, with the risks being grouped into expected risks and unexpected risks:

Preventable Risks	Unexpected Risks
• Close-down, strike, seal-up or other events due to internal reasons; • Suspension on production by the regulatory authorities due to external reasons, such as environmental checks; • Sudden increase in orders or advance delivery in emergency.	• Supplier's sudden suspension on production due to force majeure such as natural and human-induced disasters, occurrence of earthquake, fire, etc.

In timely and effective response to any emergencies and to minimise losses caused thereby, we have developed emergency plans for the above risks.

During the Reporting Period, the Group had a total of 821 suppliers located as follows:

Number and Distribution of Suppliers



CARE FOR EMPLOYEES

By regarding "imagination, passion, strength, trust, respect and love" as its core values, the Group encourages employees to be open-minded and creative. It has taken various initiatives, including creating a harmonious and diverse working environment, showing due respect to the personality and needs of each employee, and building up an equal and fair platform for the career development, with a view to realising the vision that employees and the Group grow up together.

OVERVIEW OF EMPLOYMENT

Equal Employment

With the aim of building a first-class team, we bring outstanding people together through shared values. We actively seek employees who can identify, implement and demonstrate the values and culture of the Group, and regard professionalism, corresponding skills, work experience, individual qualities and enthusiasm for work as the recruitment criteria. To this end, we have developed a series of employment systems that are applicable to different recruitment channels.

Our provisions under various employment and recruitment systems strictly abide by the Labor Law of the People's Republic of China, the US Fair Labour Standards Act, the German Civil Code and the labor laws and regulations of various jurisdictions where we operate; through a fair and transparent recruitment and appointment procedure, the Group strives to prevent discrimination and stresses the diversity of work environments; we offer open and equal recruitment and promotion opportunities for each candidate and employee without being deprived of any treatment due to gender, age, race, skin color, sexual orientation, marital status, religious beliefs, cultural background, etc.. Secondly, we strictly abide by the labor laws and regulations of the jurisdictions where we operate to safeguard the legitimate rights and interests of each employee, and refuse to use child labor in any form. It is strictly forbidden for any department and anyone of the Group to force labor by means of violence, threats and illegal restrictions on personal freedom, and harassment is prevented during recruitment and in workplace. According to the Whistle-Blowing Policy of the Group, we encourage our employees to report all types of violations of laws and regulations and contrary to group values. Employees can submit their own written reports through a dedicated report email or through the line manager. For whistleblowers, we take strict confidentiality measures to avoid unfair treatment, and to impose strict disciplinary punishment regarding any retaliation against the whistleblowers.

We have built up an outstanding team of employees featuring diversity, equality and shared values. As of 31 December 2018, we have employed a total of 12,397 employees around the world.

Employees' Satisfaction

We firmly believe that only with satisfaction by our employees, can we achieve the rapid growth of the Group. We regard each employee as an integral builder of the Group, provide improved benefits for employees, actively listen to their suggestions, gain their trust, and enhance employees' sense of belonging.

Currently, we have formulated a complete set of "Remuneration Management System" and its supporting management rules, pursuant to which, we have in place a scientific and reasonable and competitive compensation system, and adopt the legal, fair, competitive and confidential salary management principles to ensure basic wages, allowances, bonus are paid in a timely and reasonable manner. For employees in the first-line production posts, we have set up special allowances such as post allowances, skill allowances and seniority allowances to boost the motivity among employees.

On the basis of compensation management, we pay close attention to employee benefits and ensure that employees are entitled to various benefits by developing the Employee Benefit Management System.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In order to enhance employees' trust and support to the Group, we adopt an open and transparent internal communication mechanism to encourage employees to express their opinions to the management through various channels, and specifically set up a complaint handling mechanism. Take our Kunshan factory in China as an example. The plant uses a smart platform to create an "Employees' Family" to provide a safe, reliable and trusted online communication platform. In addition, we regularly conduct employee satisfaction surveys through the OA (Office Automation) system at the Group headquarters level, and make corresponding improvements based on the results.

For the departing employees, we will terminate the labor contract based on the principle of legality, fairness, equality, voluntariness and consensus in accordance with the Measures for the Termination of Employment Management. We usually have talks with the outgoing employee, to fully understand the reasons for their resignation, and help them solve problems, and assist the department heads to rectify problems. By listening to the opinions and suggestions of the outgoing employees, we have been improving the Group's management system and environment, thus reinforcing the overall employees' satisfaction.

REALISATION OF VALUE

We are committed to providing all employees with a career progression environment full of challenges and opportunities, enabling each employee to develop their ability, realise individual value, and become a driving force in our Group.

Performance Improvement

We take performance as an integral part of employees' value realisation. To help employees fully exploit their potential and improve their performance, we have introduced a performance program among global employees that encourages each employee to broaden their horizons, build connections, have in-depth communication with outstanding peers across the world, and gain support to the maximized extent for performance improvement.

Training Advancement

We believe that training is an essential way to empower employees. We have established a sound staff training regime across the Group and developed a training system with our own characteristics. Firstly, with the core values of "innovation and openness", we have set up a curriculum training program linked to jurisdictions across the world where we operate, and brought together experts in the baby products industry to stimulate employees' creative thinking, thus injecting sustained stimulus into the Group's innovation practice. Secondly, with the goal of "comprehensiveness and coherence", we have established a training college and an online learning platform to develop scientific and systematic training programs based on staff's positions and advancement needs. Through compulsory and elective, internal and external, and online and offline training, our employees are able to fully accumulate and master the knowledge and experience that is conducive to individual and business development.

We have formulated a series of training-related codes such as the "Administrative Measures for External Training", "Rules on the Management of Online Learning Platforms" and "Nurturing System for College Students", and organised a series of training activities under the guidance of the codes.

High-Potential Team Leaders Training Program

In 2018, the Group's Manufacturing Division in the PRC opened courses such as "Analysis and Resolution of On-Site Problems" and "One Day of a Team Leader" for 36 selected team leaders with high potential, and improved the team leaders' ability of problem solving, team management and communication and coordination through subject review, case study, tutoring on practice and so on.

Elite Students Training Program

In 2018, the China Region introduced the Elite Student Training Program, which recruited 34 college students and quickly improved their abilities through the apprenticeship and rotation period. Meanwhile, the training division organised a variety of training activities, such as new staff training, open courses for college students, talent dual selection, quality development training, and maker grand prix, to help employees quickly improve their skills and adapt to the new work and life.

HEALTH AND SAFETY

For us, staff's health and safety are fundamental to the Group's continued operations. Therefore, we strictly abide by the laws and regulations related to occupational health and safety of employees in each jurisdiction we operate, and build a comprehensive occupational health and safety management system based on the requirements of OHSAS 18001:2007 in conjunction with the practical conditions of the Group.

Production Safety

During the Reporting Period, we placed particular emphasis on regulating the production safety management system. On the basis of three aspects, namely optimising the production safety management system, refining case-by-case investigation into safety hazards and safety accident response regime, and fostering awareness of production safety management, we continued to facilitate the production safety management, and achieved a dramatic reduction of risks stemming from production operations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Optimising the Production safety management system	• In October 2018, it passed the third inspection on safety production standardization compliance; • We revised and refined various safety regulations including "Dangerous Operation Management System", "Management System for Related Parties", "Transportation and Handling Safety Management System" etc.
Refining case-by-case investigation into safety hazards and safety accident response regime	• In March 2018, the "Regulations on Safety Alert Management" was revised to regulate reporting, occurrence, shut-down procedures and make the department concerned accountable after incidents occur; • We promoted 13MR (13 Mandatory Rules, namely "13 mandatory rules on safety management") and introduced visualised management, revised and prepared checklists to assure a more systematic safety hazard investigation and governance.
Fostering awareness of production safety management	• Safety awareness was enhanced by organizing training on basic knowledge of safety production, safety skills and quality, safety law and regulations etc..

In 2018, the Group's production plants in Kunshan established and gradually refined the "fire control self-examination system", and carried out self-examination and self-rectification through inspections not less than twice a year. Based on the results of the inspection, we demanded the duty-holders of relevant departments to be accountable for formulating and completing rectification measures within one quarter.

Health Management

As persistent health management of our employees is also a primary focus for us, the Group strives to reduce the health-threatening elements in the workplace, and has been conducting occupational hazard testing for years. Noise is a major source of occupational disease risk in the course of production of our products. In order to eliminate the effects of noise, we have taken measures targeted at both the source and the end, such as installing silencer equipment on the machine, equipping sound insulation curtains in the production workshop, and offering earplugs for the front-line production staff, thus effectively reducing the impact of noise on employees.

In the future, the Group will continue to promote protection and education on occupational safety and health within the Group, strengthen routine management of employees' health, so as to ensure that they can work and live a life at ease.

RICHFUL LIFE

For the sake of the happiness and health of every employee, we have been continuously making efforts in improving the quality of life of our employees and creating an open environment where they are able to communicate, support and encourage each other. We fully embrace the "emotion mechanism" between the Group and employees, with a view to creating an atmosphere of "A Close Family", and leading the staff of various departments to promote prosperity and progression together.

During the Reporting Period, we organised a diversity of activities for employees.

The functional departments in China Region organised birthday party for employees every two months, with a special theme and performance shows.

On 8 March 2018, the China Region held women's day activity to formally establish the Women's Association, with a total of 600 participants. This association will provide critical support for protection of women's rights and interests.

On 10 November 2018, the China Region organised a team building event of outdoor paintball activity, and bring together the full-time employees and the intern students to increase team cohesion through team collaboration.

On 15 April 2018, the employees from China Region particpated the Kunshan Marathon as lead runners, winning the praise of the organizers and participants.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

COMMUNITY ENGAGEMENT

While continuing to expand its business, the Group also fully recognizes the important value of social participation and actively participates in public welfare activities to contribute to social development.

During the Reporting Period, we encouraged employees to actively participate in voluntary activities related to environmental management, social services and educational programs. We also worked with other institutions with the same concept to promote exchanges between community residents through various activities, and created a community environment that helped each other and developed harmoniously. As a world-leader in maternity, baby and children's products, we also leveraged our strengths to help women and children in the communities where we operated.

The public welfare activities organised by Kunshan manufacturing plants in China are as follows:

In response to the call of the local township federation, 100 employees were organized to weave woolen scarfs, and each person spent an average of 56 hours to complete the weaving of a scarf to extend warmth to hard-working cleaners in the town.

Organized blood donation campaign to promote 2018 annual voluntary blood donation in Lujia Town, and a total of 100 employees actively participated in the activity.

Organized the 2nd "Family in Kunshan • Happy Growth" enriched parent-child summer camp and invited students from local primary schools in Kunshan and their parents to participate in activities, promoting parent-child relationship through fun interaction.

Actively participated in local firefighting promotion campaigns and drill exercises, and practiced the necessary knowledge and escape skills in fire alarm among employees and surrounding communities to ensure fire safety.

The public welfare activities organised by the Americas Region are as follows:

Employees in Goodbaby Americas Region worked with Dayton Children's Hospital to inspect car seats on a quarterly basis and to host "Build A Bear Event" caring activities for in-patient children.

Employees in Goodbaby Americas Region participated in the "Buckle Pumpkin" donation organized by Hannah Treasury and donated more than 150 seats in the past two years.

Employees in Goodbaby Americas Region participated in the fundraising activities at the local women's charity Bessan Center.

Employees in Goodbaby Americas Region participated in the fundraising activities organized by the "Life Relay" in the Buffalo Wild Wings, and part of the proceeds from the activities of the day was donated to the "Life Relay".

During the Reporting Period, the Group invested a total of HK$782,000 in social charity-related activities. A total of 482 employees participated in social volunteer activities with a total of 7,774.5 hours of participation.

HK$ 782,000
in social charity-related activities

482 employees
participated in social volunteer activities

7,774.5 hours
of participation in social charity-related activities

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

APPENDIX I. MAJOR HONORS AND AWARDS IN 2018

INTERNATIONAL HONORS AND AWARDS

- Cybex multi-function dining chair LEMO won the "Red Dot Award 2018: Best of the Best"
- Carbon-fibre-frame baby stroller SWAN won the "Red Dot Award 2018: Best of the Best"
- One-hand folding light-weight stroller EEZY S TWIST won the "Red Dot Award: Product Design 2018"
- BALIOS S won the "Red Dot Award: Product Design 2018"
- Baby carrier YEMA won the "Red Dot Award: Product Design 2018"
- Cybex three-in-one lightweight baby stroller MIOS won the Japan "SENKEN KIDS PRIZE" award

HONORS AND AWARDS IN CHINA

- The Group was approved as national postdoctoral workstation
- The Group's "Ultimate Quality Management Model" won the Nomination for the 3rd China Quality Award, ranking top 5
- The Group won the "Recognition Award" of the 5th China Grand Awards for Industry
- The Group's Child Durable Product Innovation Team was recognized by the Ministry of Human Resources and Social Security as an Advanced Collective of China's Light Industry
- Goodbaby brand was recognised the most influential brands in the CBME China Pregnancy and Infants and Kids Industry and consumer sector "Travel", "Car Seat" and "Beds and Home Furnitures for Kids"
- Carbon-fiber-frame baby stroller SWAN won the Taiwan "Golden Pin Design Award"
- EEZY S TWIST won the "TJPA Innovation Product Award for Chinese Toys and Baby Products"
- POCKIT won the "Good Design Silver Award" granted by Chinese Academy of Engineering and China Innovation Design Industry Strategic Alliance

APPENDIX II. INDEXES FOR GUIDELINES ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Main scopes, level, general disclosure and key performance indicators		Disclosure paragraphs	Remarks
A. Environment			
Aspect A1	**Emissions**		
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and nonhazardous waste.	Green operation	
Key performance indicators A1.1	The types of emissions and respective emissions data.	Reduction in environmental impact	
Key performance indicators A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Efficient use of resources	
Key performance indicators A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Reduction in environmental impact	
Key performance indicators A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Reduction in environmental impact	
Key performance indicators A1.5	Description of measures to mitigate emissions and results achieved.	Reduction in environmental impact	
Key performance indicators A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Reduction in environmental impact	
Aspect A2	**Use of resources**		
General disclosure	Policies on the effective use of resources, including energy, water and other raw materials. Resources can be used for production, storage, transportation, buildings, electronic equipment, etc.	Green operation	
Key performance indicators A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in'000s) and intensity (e.g. per unit of production volume, per facility).	Efficient use of resources	
Key performance indicators A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Efficient use of resources	
Key performance indicators A2.3	Description of energy use efficiency initiatives and results achieved.	Efficient use of resources	
Key performance indicators A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Efficient use of resources	
Key performance indicators A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Efficient use of resources	
Aspect A3	**Environment and natural resources**		
General disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Green operation	
Key performance indicators A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Green operation	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Main scopes, level, general disclosure and key performance indicators		Disclosure paragraphs	Remarks
B. Society			
Employment and labor practices			
Aspect B1	**Employment**		
General disclosure	Information on: (a) the policies; and (b) relevant laws and regulations having significant implications for the issuer and relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	Overview of employment	
Key performance indicators B1.1	Total number of employees by gender, type of employment, age group, and region.	Overview of employment	Total number of employees
Key performance indicators B1.2	Employee turnover ratio by sex, age group and region.		
Aspect B2	**Health and safety**		
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations having significant implications for the issuer and relating to providing a safe working environment and protecting employees from occupational hazards.	Health and safety	
Key performance indicators B2.1	The number and rate of deaths due to work.		
Key performance indicators B2.2	The number of working days loss due to work injury.		
Key performance indicators B2.3	Description of the occupational health and safety measures adopted, as well as related methods of implementation and monitoring.	Health and safety	
Aspect B3	**Development and training**		
General disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. Training refers to vocational training and may include internal and external courses paid by the employer.	Realisation of value	
Key performance indicators B3.1	Percentage of trained employees by gender and employee category (e.g. senior management, middle management, etc.).		
Key performance indicators B3.2	The average number of hours each employee completed training, by gender and employee category.		
Aspect B4	**Labor standards**		
General disclosure	Information on: (a) policies; and (b) comply with relevant laws and regulations having significant implications for the issuer and regarding the prevention of child labor or forced labor.	Overview of employment	
Key performance indicators B4.1	Description of measures to review recruitment practices to avoid child labor and forced labor.	Overview of employment	
Key performance indicators B4.2	Description of measures to eliminate the situation when a violation case is identified.	Overview of employment	

Main scopes, level, general disclosure and key performance indicators		Disclosure paragraphs	Remarks
Operating practice			
Aspect B5	**Supply Chain Management**		
General disclosure	Policy on management of environmental and social risks in the supply chain.	Promotion of responsible supply	
Key performance indicators B5.1	Number of suppliers by region.	Promotion of responsible supply	
Key performance indicators B5.2	Description of the practices relating to the engagement of suppliers, the number of suppliers to whom they are involved in the practice, and the implementation and monitoring methods of the relevant practices.	Promotion of responsible supply	
Aspect B6	**Product liability**		
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations having significant implications for the issuer and relating to health and safety, advertising, labeling, privacy and remedies for the products and services offered.	Pursuit of product quality	
Key performance indicators B6.1	The percentage of total or sold products that have to be recalled for safety and health reasons.	Stable quality	
Key performance indicators B6.2	Number of complaints about products and services received and corresponding responses.	Trust of customers	
Key performance indicators B6.3	Description of practices related to the maintenance and protection of intellectual property.	Excellence in innovation	
Key performance indicators B6.4	Description of the quality verification process and procedures for product recycling.	Stable quality	
Key performance indicators B6.5	Description of policies on consumer data protection and privacy, as well as related implementation and monitoring methods.	Trust of customers	
Aspect B7	**Anti-corruption**		
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations having significant implications for the issuer and relating to bribery, extortion, fraud and money laundering.	Integrity management	
Key performance indicators B7.1	The number of corruption cases filed and concluded by the issuer or its employees during the reporting period and the outcome of the proceedings.	Integrity management	
Key performance indicators B7.2	Description of preventive measures and reporting procedures, as well as related methods for implementation and monitoring.	Integrity management	
Community			
Aspect B8	**Community investment**		
General disclosure	Policies on participation to understand the needs of the communities where they operate and to ensure that their business activities take into account the interests of the communities.	Community engagement	
Key performance indicators B8.1	Focus on areas of contribution (e.g. education, environmental issues, needs of labor, health, culture, sports).	Community engagement	
Key performance indicators B8.2	Use of resources (such as money or time) in a focused area.	Community engagement	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

APPENDIX III. LIST OF DISCLOSED POLICIES, LAWS AND REGULATIONS

In accordance with the "Policies" and "Compliance with relevant laws and regulations that have a significant impact on the issuer" provisions set out in "General Disclosure", this section mainly gives a summary and list of the internal policies, external laws and regulation disclosed in the report based on the sequence of reference of the same.

List of Internal Policies

Risk Management and Internal Control Guidelines
Internal Audit Guidelines
Anti-Corruption Policy
Whistle-Blowing Policy
Product Safety Management Policy
Management Procedures for Customer Service Communication
Management Procedure of Fault Reporting by Users
Information Security Policy
Environmental Management Manual
Environmental Management Accountability System
Management System for Rainwater Sewage Network
Wastewater Management Rules
Air Emissions Management Rules
Waste Management Rules
Management System for Waste Materials Treatment
Management System for Collection and Storage of Hazardous Waste
Hazardous Waste Disposal Procedure
Environmental Hygiene Greening Management Rules
Company's Supplier Guidelines
Supplier Management Control Procedures
Recruitment General Rules
Internal Talents Recommendation System
Remuneration Management System
Employees Benefit Management System
Measures for the Management of Outgoing Employees
Administrative Measures for External Training
Rules on the Management of Online Learning Platforms
Nurturing System for College Students
Dangerous Operation Management System
Management System for Related Parties
Transportation and Handling Safety Management System
Regulations on Safety Alert Management

Laws and Regulations

Company Law of the People's Republic of China
Trademark Law of the People's Republic of China
Patent Law of the People's Republic of China
Law of the People's Republic of China on the Protection of Consumer Rights and Interests
Cyber Security Law of the People's Republic of China
European Union General Data Protection Regulation
Law of the People's Republic of China on Environmental Protection
Laws of the People's Republic of China on Prevention and Control of Water Pollution
Laws of the People's Republic of China on Prevention and Control of Air Pollution
European Union Directive on the Enforcement of Intellectual Property Rights
European Union Waste Management Act
U.S. Clean Air Act
U.S. Clean Water Act
U.S. Fair Labour Standards Act
Laws of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Wastes
Energy Conservation Law of the People's Republic of China
Water Law of the People's Republic of China
Administrative Measures for Industrial Water Conservation
Opinions on Strengthening Industrial Water Conservation
Management Rules for Recycling and Disposal of Waste Electrical and Electronic Products
Labour Law of People's Republic of China
German Civil Code
U.S. Federal Hazardous Substances Act
U.S. Energy Independence and Security Act of 2007
U.S. Energy Policy Act
U.S. Patent Reform Act

Goodbaby International

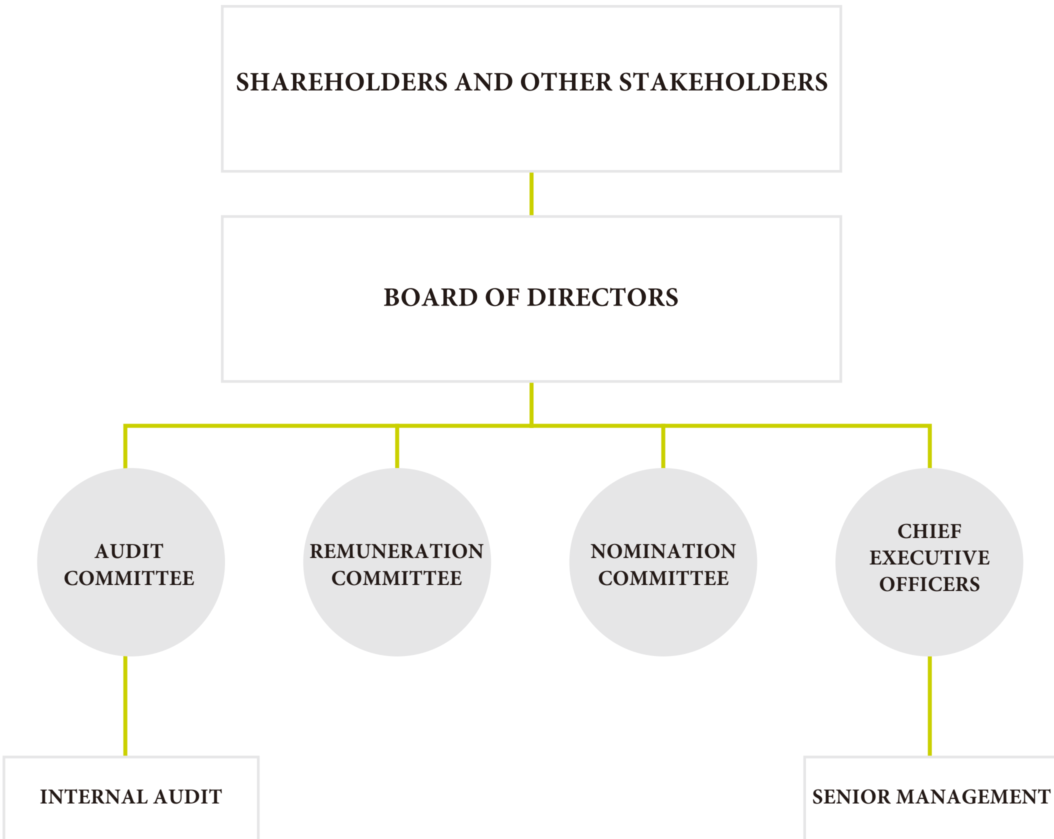
CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

The board (the "Board") of directors (the "Directors") is pleased to present this corporate governance report in the annual report for the year ended 31 December 2018. The manner in which the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") are applied and implemented, as explained in the following sections of this corporate governance report:

CORPORATE GOVERNANCE STRUCTURE AND PRACTICES

CORPORATE GOVERNANCE STRUCTURE



CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards. It believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders and formulate its business strategies and policies as well as to enhance corporate value and accountability.

Throughout the year from 1 January 2018 to 31 December 2018, in the opinion of the Directors, the Company has complied with all the code provisions and certain recommended best practices as set out in the CG Code, save for the deviation from code provisions A.1.1, which deviation is explained in the relevant paragraphs of this report.

The Company has also put in place certain recommended best practices as set out in the CG Code.

The Company is committed to enhancing its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with the CG Code and align with the latest developments.

LEADERSHIP

The Board oversees the Company's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

BOARD COMPOSITION

The Board currently comprises eleven members, consisting of five executive Directors, two non-executive Directors and four independent non-executive Directors, as follows:

Executive Directors

Mr. SONG Zhenghuan *(chairman)*
Mr. Martin POS *(CEO)*
Mr. XIA Xinyue
Mr. LIU Tongyou
Mr. Michael Nan QU

Non-Executive Directors

Ms. FU Jingqiu
Mr. HO Kwok Yin, Eric

Independent Non-Executive Directors

Mr. Iain Ferguson BRUCE *(chairman of audit, nomination and remuneration committees)*
Mr. SHI Xiaoguang *(member of audit, nomination and remuneration committees)*
Ms. CHIANG Yun *(member of audit, nomination and remuneration committees)*
Mr. JIN Peng

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 28 to 37 of this annual report.

None of the members of the Board is related to one another, save and except that Ms. FU Jingqiu, non-executive Director, is the spouse of Mr. SONG Zhenghuan, the chairman and executive Director of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of Chairman and CEO are held by Mr. SONG Zhenghuan and Mr. Martin POS respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The CEO focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines as set out in Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors are independent.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2018. The Company has also established a code of conduct no less exacting than the Model Code (the "Employees Code of Conduct") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Code of Conduct by the employees was noted by the Company.

CORPORATE GOVERNANCE REPORT

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Directors take decisions objectively in the interests of the Company. The Board has delegated to the CEO, and through him, to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established board committees and has delegated to these board committees various responsibilities as set out in their respective terms of reference.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company as well as the services and advice of the Company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors have disclosed to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company. The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors keep abreast of responsibilities as directors of the Company and of the conduct, business activities and development of the Company. Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internal briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses. During the year ended 31 December 2018, all Directors have provided the Company with a record of the training they received on a half yearly basis, and such records were maintained by the Company. The training record of each Director during the year ended 31 December 2018 is set out in the table below:

Name of Directors	Hours of Training in 2018
SONG Zhenghuan	10
Martin POS	10
XIA Xinyue	10
LIU Tongyou	10
Michael Nan QU	10
FU Jingqiu	10
HO Kwok Yin, Eric	10
Iain Ferguson BRUCE	27.5
SHI Xiaoguang	10
CHIANG Yun	10
JIN Peng	10
YANG Ilcheul (resigned on 7 November 2018)	6

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Code provision A.4.1 of the CG Code stipulates that non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the executive Directors has entered into a service contract/signed an appointment letter with the Company and is appointed for a specific term of three years unless terminated by not less than three months' notice in writing served by either the executive Director or the Company. The non-executive Directors and each of the independent non-executive Directors has signed an appointment letter with the Company and is appointed for a specific term of three years.

The appointment of all Directors are subject to the provisions of retirement and rotation of Directors under the Company's articles of association. In accordance with the Company's articles of association, all Directors of the Company are subject to retirement by rotation at least once every three years and any new Director appointed to fill a causal vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment. Any new Director appointed as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following general meeting.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's articles of association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group. Details of the remuneration of each of the Directors of the Company for the year ended 31 December 2018 are set out in note 9 to the financial statements.

COMPANY SECRETARY

The Company has engaged Tricor Services Limited, external service provider, and Ms. HO Siu Pik has been appointed as the Company's company secretary. Its primary contact person at the Company is Ms. WANG Qi, VP Group Legal and Compliance of the Company.

The company secretary's biography is set out in the section headed "Directors and Senior Management" on pages 28 to 37 of this annual report. During 2018, the company secretary undertook over 15 hours of professional training to update her skills and knowledge.

All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters.

BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request. All members of each Board committee are independent non-executive Directors. A list of the chairman and members of each Board committee is set out under "Corporate Information" on pages 2 to 5 of this annual report.

AUDIT COMMITTEE

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

CORPORATE GOVERNANCE REPORT

With effect from 1 January 2019, amendment to code provision C.3.2 of the CG Code in respect of the extension of cooling period for appointment of a former partner of an issuer's current audit firm as the issuer's audit committee member from one year to two years has been put in place. In light of this recent amendment, the terms of reference of the Audit Committee has been revised accordingly to reflect such a change, and adopted by the Board on 14 December 2018 with an effort to keep abreast of the latest development of the CG Code.

The Audit Committee held two meetings on 26 March 2018 and 28 August 2018 respectively, to review the annual financial results and report for the year ended 31 December 2017, and interim financial results and report for the six months ended 30 June 2018 as well as significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems, appointment of external auditors, continuing connected transactions and arrangements for employees to raise concerns about possible improprieties. During the year ended 31 December 2018, the Audit Committee also met the external auditors twice without the presence of the executive Directors.

REMUNERATION COMMITTEE

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include determining/reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee held two meetings on 26 March 2018 and 27 March 2018 (by telephone conference) to review and make recommendation to the Board on the remuneration policy and structure of the Company, the remuneration packages of executive Directors and senior management for 2018 as well as other related matters. The Remuneration Committee also made recommendations to the Board on the terms of service agreement.

NOMINATION COMMITTEE

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors. External recruitment professionals might be engaged to carry out recruitment and selection process when necessary.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

The Nomination Committee held a meeting on 26 March 2018 to review the structure, size and composition of the Board, the independence of the independent non-executive Directors, to consider the qualifications of the retiring directors standing for election at the annual general meeting and to consider and recommend to the Board on the new directors appointed during the year. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

DIRECTOR NOMINATION POLICY

The Board has established a director nomination policy setting out the criteria and process in the nomination and appointment of directors of the Company, ensuring that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the Board continuity and appropriate leadership at Board level, via written resolutions passed by the Directors on 14 December 2018. The Company shall appoint independent non-executive Directors representing at least one-third of the Board. The Nomination Committee should assess the independence of the independent non-executive Directors in taking into account the factors set out on Rule 3.13 of the Listing Rules. The Nomination Committee will conduct regular review on the structure, size and composition of the Board and this Policy and where appropriate, make recommendations on change to the Board to complement the Company's corporate strategy and business needs.

The Nomination Committee would consider the character and integrity, potential contributions in terms of qualifications, skills, experience, independence and diversity, and other perspectives that are appropriate to the Company's business and succession as the criteria for selecting candidate for directorship.

For appointment of new director, the Nomination Committee should evaluate the candidates based on the criteria as set out in the nomination policy, rank them by order of preference based on the needs of the Company and recommend the appropriate candidate to the Board for appointment. For any person that is nominated by a shareholder for election at the general meeting, the Nomination Committee should also evaluate the candidates based on the criteria and make recommendation to shareholders in respect of the proposed election of director at the general meeting.

For re-election of director at general meeting, the Nomination Committee should review the overall contribution and services to the Company of the retiring director and the level of participation and performance on the Board and whether the retiring director continues to meet the criteria as set out in the nomination policy. The Nomination Committee should then make recommendation to shareholders in respect of the proposed re-election of director at the general meeting. Where the Board proposes a resolution to elect or re-elect a candidate as director at the general meeting, the relevant information of the candidate should be disclosed in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the Listing Rules and/or application laws and regulations.

BOARD DIVERSITY POLICY

The Board has amended the board diversity policy, which were adopted on 23 August 2013, setting out the approach to achieve diversity on the Board via written resolutions passed by the Directors on 14 December 2018. The Company recognizes and embraces the benefits of having a diverse Board and deed increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage and corporate governance. The Nomination Committee has primary responsibility for identifying individuals suitably qualified to become members of the Board and selecting, or making recommendations to the Board on the selection of, individuals nominated for directorships. The Nomination Committee will discuss and agree on the measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption. The Company aims to maintain an appropriate balance of diversity perspectives of the Board that are relevant to the Company's business growth. All Board appointments will based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties as set out in the Corporate Governance Functions of the Board adopted by the Company including:

- to develop and review the Company's policies, procedures and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review the effectiveness of the risk management and internal control system on an ongoing basis and to remedy material internal control weaknesses;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
- to review the adequacy of resources, staff competency, training programs and budget of the Company's accounting, financial reporting and internal audit and financial reporting functions; and
- to review the Company's compliance with CG Code and disclosure in the corporate governance report in the annual report of the Company.

The Board may delegate the corporate governance duties to a committee of the Board.

The Board's annual review of the Company's corporate governance practices for the year ended 31 December 2018 has covered the aforesaid matters.

BOARD MEETINGS

BOARD PRACTICES AND CONDUCT OF MEETINGS

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notice of regular Board meetings is served to all Directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

CORPORATE GOVERNANCE REPORT

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

Where necessary, the senior management attend regular Board meetings and other Board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The Company's articles of association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board Committee meetings and the general meeting of the Company held during the year ended 31 December 2018 is set out in the table below:

	Attendance/Number of Meetings in 2018				
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meetings
SONG Zhenghuan	3/3	N/A	N/A	N/A	2/2
Martin POS	3/3	N/A	N/A	N/A	0/2
YANG Ilcheul (1)	3/3	N/A	N/A	N/A	0/2
XIA Xinyue	3/3	N/A	N/A	N/A	0/2
LIU Tongyou	3/3	N/A	N/A	N/A	2/2
Michael Nan QU	3/3	N/A	N/A	N/A	0/2
FU Jingqiu	3/3	N/A	N/A	N/A	2/2
HO Kwok Yin, Eric	3/3	N/A	N/A	N/A	2/2
Iain Ferguson BRUCE	3/3	2/2	2/2	1/1	2/2
SHI Xiaoguang	3/3	2/2	2/2	1/1	2/2
CHIANG Yun	3/3	2/2	2/2	1/1	2/2
JIN Peng	3/3	N/A	N/A	N/A	0/2

Notes:

(1) Resigned on 7 November 2018.

Code provision A.1.1 stipulates that, among others, the Board should meet at least four times a year at approximately quarterly intervals.

The Board held three physical Board meetings during 2018. As members of the Board are located in various jurisdictions and time zones, to efficiently and timely deal with affairs of the Company, in lieu of physical meeting, the Company adopted written resolutions as permitted under its articles of association. For the year ended 31 December 2018, in addition to the matters considered at physical Board meetings, all affairs of the Company had been properly dealt with by means of written board resolutions, which have been carefully considered and approved by all the Directors. In the forthcoming year, the Company intends to hold at least four Board meetings.

Apart from regular Board meetings, the chairman also held a meeting solely with the independent non-executive Directors on 26 March 2018.

ACCOUNTABILITY AND AUDIT

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 106 to 112.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility to safeguard corporate governance through monitoring and reviewing the effectiveness of the risk management and internal control systems regularly by the Audit Committee. Such systems are designed to facilitate effective and efficient operations, ensure reliability of financial reporting and compliance with applicable laws and regulations, identify and assess on potential risk areas and implement control measures to mitigate rather than eliminate the risks to achieve business objectives on reasonable level but no absolute assurance against material misstatement or loss. The Audit Committee reviews and monitors the scope, issues, results and action plans in relation to or arising from the internal and external audits. The Audit Committee also assists the Board in fulfilling its oversight and corporate governance roles in the Company's risk management and internal controls, and the resources of the finance and internal audit functions.

The key elements of the Company's risk management and internal control systems include the following areas:

- A closed loop framework that monitors and assesses risks, internal control operating environment and the execution and results of remediation actions to address on the identified risks and control deficiencies;
- An organizational structure with clearly defined and distinct lines of authority and control responsibilities;
- Approval from executive director/responsible senior executive prior to commitment on all material matters;
- A robust financial and management accounting system to provide for performance measurement indicators and to ensure compliance with relevant rules;
- Annual plans prepared by senior management on financial reporting, operations and compliance with consideration of potential opportunities and risks;
- Strict prohibition on release of confidential information;
- Appropriate policy to ensure the adequacy of resources, qualifications and experience of staff of the Company's accounting, financial reporting and internal audit functions, and their training programs and budget;
- On an ongoing basis, review and evaluation of the adequacy and effectiveness of risk management and internal control systems and hence any enhancement implementation as appropriate. Embeddedness of risk management as part of all the organizational policies and processes.

The Company has made solid progress to strengthen the risk management and internal control systems in year 2018 with key highlights as below:

1) Control Self-Assessment (CSA) mechanism was initiated and rolled out in year 2018 to identify, evaluate and manage critical controls and significant risks of core operating practices of the business with reference to the COSO framework. CSA is a systematic and standardized approach applied across the Company at the process, business unit and entity levels. Business/process owners are required to self-review and self-audit the adequacy and effectiveness of internal controls on business processes of their responsible areas with support and validation from internal control department. The key internal control deficiencies were identified, followed up and mitigated properly and timely.

2) Internal Audit has embedded risk management into the internal audit planning stage. The annual internal audit plan is developed based on a comprehensive and structured risk analysis approach to identify potential areas of focus. Annual Risk Assessment (ARA), being one of the key elements of the comprehensive risk analysis, has been conducted with corporate executives and senior management of business units and core supporting functions to identify the strategic, operational, compliance and financial risk factors. Through the ARA process, major risks that may impede the business from achieving its objectives are identified, year-over-year comparison analysis prepared, root causes are scrutinized, and mitigation action plans are developed.

3) Internal Audit has developed and executed new policies and processes to improve the internal audit system, such as Internal Audit Rating System and Internal Audit Manual. Post-audit reviews are performed to ensure that corrective action plans for previously identified internal control deficiencies have been implemented as intended and on a timely basis. Major risks and control deficiencies identified out of internal audit projects are reported to and reviewed by the Audit Committee regularly.

CORPORATE GOVERNANCE REPORT

During 2018, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control system of the Company. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Company's financial position or results of operations and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, financial reporting and internal audit functions.

In addition to the review of risk management and internal controls undertaken within the Company, the external auditor also assessed the adequacy and effectiveness of certain key risk management and internal controls as part of their statutory audits. Where appropriate, the external auditor's recommendations are adopted and enhancements to the risk management and internal controls will be made.

The Company has established a set of Corporate Governance policies to ensure compliance with the various rules and obligations imposed on it as a company listed on the Stock Exchange of Hong Kong Limited, and to improve the effectiveness of its risk management and internal control systems. Among the mentioned policies, the key policies are illustrated as the following.

CODE OF BUSINESS CONDUCT

All staff of the Company are subject to the Code of Business Conduct. It provides guidance on matters relating to legal compliance, conflict of interest, confidential information, fair competition, business opportunities, career opportunities, as well as environment, health and safety. The code promulgates ethical values in business activities and requires employees to adhere to it when discharging their delegated duties.

WHISTLE-BLOWING POLICY

The Audit Committee oversees execution of the whistle-blowing policy. The Company expects and encourages its employees, customers, suppliers and other stakeholders who have concerns about any suspected misconduct or malpractice within the Company to report on these concerns which could facilitate risk monitoring, fraud alert and continuous improvement in internal controls. Internal Audit has formulated standard procedures to handle whistle-blowing matters, including protection of whistle-blower and evidence, investigation procedures and communication protocol. All whistle-blowing reports are recorded in details and with confidentiality. Whistle-blowing cases, investigation results, actions taken and proposed internal control improvements are reported to the Audit Committee.

DISCLOSURE POLICY

The Company has developed its disclosure policy which provides a general guide to the Company's directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorised access and use of inside information are strictly prohibited.

CONNECTED TRANSACTION POLICY

The Connected Transaction Policy is established to provide consistent group-wide rules on the identification, assessment and approval and disclosure of connected transactions, in compliance with the rules defined in Chapter 14A of the Listing Rules.

EXTERNAL AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2018 amounted to HK$9,823,000 and HK$308,780 respectively. An analysis of the remuneration paid to the external auditors of the Company, Ernst & Young, in respect of audit services and non-audit services for the year ended 31 December 2018 is set out below:

Service Category	Fees Paid/ Payable
Audit Services	9,823,000
Non-audit Services	308,780
• Transfer pricing consulting	260,480
• Others	48,300

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/ INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. The chairman of the Board, non-executive Directors, independent non-executive Directors, and the chairmen of all Board committees (or their delegates) will make themselves available at the annual general meeting to meet shareholders and answer their enquiries.

The 2019 annual general meeting ("AGM") of the Company will be held on 27 May 2019. The notice of AGM was sent to the shareholders at least 20 clear business days before the AGM.

To promote effective communication, the Company maintains a website at www.gbinternational.com.hk, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

During the year under review, the Company has not made any changes to its articles of association. An up-to-date version of the Company's articles of association is also available on the Company's website and the Stock Exchange's website.

SHAREHOLDERS' COMMUNICATION POLICY

The Board has adopted a shareholders' communication policy made reference to code provision E.1.4 of the CG Code as contained in Appendix 14 of the Listing Rules at a board meeting held on 16 March 2014.

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Director. Except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, all resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules. Poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

CORPORATE GOVERNANCE REPORT

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EGM (INCLUDING MAKING PROPOSAL(S)/ MOVING RESOLUTION(S) AT THE EGM)

Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to the Board of the Company or the company secretary of the Company (the "Company Secretary"), to require an extraordinary general meeting (the "EGM") to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.

Eligible Shareholders who wish to convene an EGM for the purpose of making proposal(s) or moving resolution(s) at the EGM must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned at the principal place of business of the Company in Hong Kong at Room 2001, 20th Floor, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for the attention of the Company Secretary.

The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM, the agenda proposed to be included and the details of the business(es) proposed to be transacted in the EGM, signed by the Eligible Shareholder(s) concerned.

The Company will check the Requisition and the identity(ies) and the shareholding(s) of the Eligible Shareholder(s) will be verified with the Company's branch share registrar in Hong Kong. If the Requisition is found to be proper and in order, the Board will be asked to convene an EGM within 2 months and/ or include the proposal(s) or the resolution(s) proposed by the Eligible Shareholder(s) at the EGM after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM and/or include the proposal(s) or the resolution(s) proposed by the Eligible Shareholder(s) at the EGM.

The notice period to be given to all the registered shareholders for consideration of the proposal raised by the Eligible Shareholder(s) concerned at an EGM varies according to the nature of the proposal, as follows:

- at least twenty-one (21) clear days' notice in writing if the proposal constitutes a special resolution of the Company, which cannot be amended other than to a mere clerical amendment to correct a patent error; and

- at least fourteen (14) clear days' notice in writing if the proposal constitutes an ordinary resolution of the Company.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

Shareholders may propose a person for election as Director, the procedures for which are available on the Company's website in the section of "Corporate Governance" under the column of "Investor Relations".

PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board of the Company, shareholders may send their enquiries and concerns to the Board by addressing them to the Head of Legal and Compliance Department to the Company's principal place of business in Hong Kong at Room 2001, 20th Floor, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong by post, or by email to enq_to_board@goodbabyint.com.

For the avoidance of doubt, shareholder(s) must deposit/send the original duly signed written enquiries or concerns (as the case may be) to the Company's aforesaid address and provide his/her/their full name(s) and contact details in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Note: The Company will not normally deal with verbal or anonymous enquiries.

DIVIDEND POLICY

The Board has established a dividend policy setting out the principles and guidelines that the Company will apply when considering the declaration and payment of dividends to the shareholders of the Company via written resolutions of the Directors passed on 14 December 2018. The Company is subject to the articles of association of the Company and all applicable laws (including the Cayman Companies Law), rules and regulations, during declaration and payment of dividends to shareholders of the Company.

According to the Board's dividend policy, the Company may, subject to the Cayman Companies Law, from time to time in general meeting declare dividends in any currency to be paid to the shareholders of the Company but no dividend shall be declared in excess of the amount recommended by the Board.

The Board has the discretion to declare dividends to the shareholders of the Company, subject to the Company's articles of association and all applicable laws and regulations and taking into consideration factors set out below:

(1) financial results;

(2) cash flow situation;

(3) business conditions and strategies;

(4) future operations and earnings;

(5) capital requirements and expenditure plans;

(6) interests of shareholders;

(7) taxation consideration;

(8) any contractual, statutory and regulatory restrictions on payment of dividends; and

(9) any other factors that the Board may consider relevant.

REPORT OF THE BOARD OF DIRECTORS

REPORT OF THE BOARD OF DIRECTORS

The Board is pleased to present their report and the audited financial statements for the year ended 31 December 2018 of the Group.

The Company is an investment holding company, and its subsidiaries are principally engaged in the design, research and development, manufacture, marketing and sales of children's car safety seats, strollers, apparels and home textile products, feeding, nursing and personal care products, cribs, bicycles and tricycles and other children products. The analysis of the revenue of the Group for the year is set out in note 5 to the Financial Statements.

BUSINESS REVIEW AND PERFORMANCE

A review of the business of the Group and a discussion and analysis of the Group's performance during the year under review and a discussion on the Group's future business development and outlook of the Company's business, possible risks and uncertainties that the Group may be facing and important events affecting the Company occurred during the year ended 31 December 2018 are provided in the section headed "Chairman's Statement" on pages 6 to 11 and the section headed "Management Discussion and Analysis" on pages 12 to 27 of this annual report. An account of the Company's relationships with its key stakeholders is included in the paragraph headed "Relationships with Employees, Suppliers and Customers" on page 89 of this annual report.

An analysis of the Group's performance during the year ended 31 December 2018 using financial performance indicators is provided in the section headed "Management Discussion and Analysis" on pages 12 to 27 of this annual report.

In addition, more details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations which have a significant impact on the Company are provided in the paragraph headed "Environmental, Social and Governance" on pages 38 to 71 of this annual report.

FINANCIAL STATEMENTS

The results of the Group for the year are set out in the Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income on page 113 and page 114 respectively. The financial position as at 31 December 2018 of the Group are set out in the Consolidated Statement of Financial Position on pages 115 to 116. The cash flow of the Group during the year is set out in the Consolidated Statement of Cash Flows on pages 118 to 119.

SHARE CAPITAL

The changes in share capital of the Group during the year are set out in note 32 to the Financial Statements.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: HK$0.05 per ordinary share).

CLOSURE OF REGISTER OF MEMBERS

For the purposes of ascertaining the members' eligibility to attend and vote at the annual general meeting, the Company's register of members will be closed during the following periods respectively:

For ascertaining eligibility to attend and vote at the annual general meeting:

- Latest time to lodge transfers documents for registration
  4:30 p.m. on 21 May 2019 (Tuesday)

- Closure of register of members
  22 May 2019 (Wednesday) to 27 May 2019 (Monday), both days inclusive

To be eligible to attend and vote at the annual general meeting, all duly stamped instruments of transfers, accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, namely Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than the respective latest time as stated above.

RESERVE

Details of the changes in reserves of the Group during the year are set out in note 34 to the Financial Statements.

As at 31 December 2018, the reserves of the Company available for distribution to shareholders was approximately HK$3,320.4 million.

PROPERTY, PLANT AND EQUIPMENT

The changes in property, plant and equipment during the year are set out in note 14 to the Financial Statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentage of purchases attributable to the Group's five largest suppliers combined was approximately 10.9% of the Group's total purchase. The percentages of sales for the year attributable to the Group's major customers are as follows:

– the largest customer	11.5%
– five largest customers in aggregate	29.1%

Save as disclosed herein, as far as the Company is aware, none of the Directors nor his/her connected persons and none of the shareholders possessing over 5% of the interest in the capital of the Company possessed any interest in the above-mentioned suppliers and customers.

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group understands that employees are valuable assets. The Group provides competitive remuneration package to attract and motivate the employees. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

REPORT OF THE BOARD OF DIRECTORS

The Group's business is built on a customer-oriented culture, and are focused on establishing relationships with retailers, brand owners and distributors globally. The Group also understands that it is important to maintain good relationship with its suppliers and customers to fulfil its immediate and long-term goals. To maintain its market competitiveness within the industry, the Group aims at delivering constantly high standards of quality in the service to its customers. During the year under review, there was no material and significant legal dispute between the Group and its suppliers and/or customers.

DONATION

During the year under review, the charitable contributions and other donations amounted to HK$782,000.

DIRECTORS

The Directors in office during the year and as at the date of this report were as follows:

Executive Directors
SONG Zhenghuan
Martin POS
YANG Ilcheul (resigned on 7 November 2018)
XIA Xinyue
LIU Tongyou
Michael Nan QU

Non-executive Directors
FU Jingqiu
HO Kwok Yin, Eric

Independent Non-executive Directors
Iain Ferguson BRUCE
SHI Xiaoguang
CHIANG Yun
JIN Peng

Further details of the Directors and senior management are set forth in the section "Directors and Senior Management" of this annual report.

In accordance with the articles of association of the Company, and based on Listing Rules Mr. SONG Zhenghuan, Mr. SHI Xiaoguang, Mr. Michael Nan QU and Mr. Iain Ferguson Bruce will retire in the forthcoming annual general meeting, and being eligible, have offered themselves to be re-elected and re-appointed at the forthcoming annual general meeting.

SERVICE CONTRACTS OF DIRECTORS

Each of the executive Directors has entered into a service contract/signed an appointment letter with the Company and is appointed for a specific term of three years unless terminated by not less than three months' notice in writing served by either the executive Director or the Company.

Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with the Company and is appointed for a specific term of three years with effect from the respective date stated therein.

There was no service contract entered into/appointment letter signed by the Company and any Directors to be re-elected in the forthcoming annual general meeting which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Other than those transactions disclosed in note 38 to the Financial Statements and in the section "Connected transactions" below, there was no other contracts of significance with any member of the Group as the contracting party and in which the Directors possessed direct or indirect substantial interests, and which was still valid on the year end date or any time during the year and related to the business of the Group.

DIRECTORS' INTERESTS IN COMPETITIVE BUSINESS

For the year ended 31 December 2018, the Company has received an annual written confirmation from each of Mr. SONG Zhenghuan and Ms. FU Jingqiu in respect of their and their close associates' compliance with the deed of non-competition dated 23 October 2017 (which replaces the deed of non-competition dated 9 November 2010 as disclosed in the Company's prospectus for global offering dated 11 November 2010). Further details of the deed of non-competition are set out in the circular of the Company dated 4 September 2017.

The independent non-executive Directors have reviewed and were satisfied that each of them has complied with the deed of non-competition for the year ended 31 December 2018.

SHARE OPTION SCHEME

On 5 November 2010, the Company adopted a share option scheme ("Share Option Scheme") to incentivize or reward eligible participants (including (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; (ii) any directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; and (iii) any advisers, consultants, suppliers, customers, agents and such other persons who in the sole opinion of the Board will contribute or have contributed to our Company or any of its subsidiaries) for their contribution to the Group for the purpose of motivating the eligible participants to optimize their performance efficiency for the benefit of the Group, and attracting and retaining or otherwise maintaining on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group.

With the approval of the shareholders of the Company in general meetings, the Directors may "refresh" the scheme limit under the Share Option Scheme.

Pursuant to the shareholders' approval obtained by the Company and its annual general meeting held on 25 May 2017, the original scheme limit was refreshed to 111,630,600 shares, representing 10% of the then total number of shares in issue.

At the Company's extraordinary general meeting held on 28 May 2018, the scheme limit was refreshed and approved by the then shareholders such that the total number of shares which may fall to be issued upon exercise of all share options to be granted under the share option scheme and any other share option scheme(s) as may from time to time be adopted by the Company must not exceed 166,802,316 i.e. 10% of the shares in issue as at the date of approval of the refreshed limit by the shareholders.

REPORT OF THE BOARD OF DIRECTORS

During the year under review 112,300,000 share options were granted under the share option scheme. On 27 March 2018, 100,800,000 share options were granted. On 28 May 2018, 11,500,000 share options were granted under the Share Option Scheme. During 2018, 28,447,333 share options had lapsed and 1,772,000 share options had been exercised. As at 31 December 2018, 133,030,667 share options were outstanding. Movements of the share options granted during the year ended 31 December 2018 were as follows:

Name of grantee	No. of share options outstanding at the beginning of the period	No. of share options granted during the period	No. of share options cancelled during the period	No. of share options lapsed during the period	No. of share options exercised during the period	No. of share options outstanding at the end of the period	Date of Grant	Period during which share options are exercisable	Exercise price per share (HK$)	Closing price of the shares immediately before the date of grant (HK$)
Employees of the subsidiaries of the Company	20,000	0	0	14,000	6,000	0	3 January 2012	(i) 0 share options: 3 January 2013 to 2 January 2018 (ii) 0 share options: 3 January 2015 to 2 January 2018 (iii) 0 share options: 3 January 2016 to 2 January 2018 (iv) 0 share options: 3 January 2017 to 2 January 2018	2.12	2.12
Directors of the Company, employees of the Group and Ms. FU Jingqiu (Chairwoman of the Group's largest distributor in the PRC and a substantial shareholder of the Company)	28,780,000	0	0	1,600,000	1,766,000	25,414,000	29 September 2014	(i) 7,593,992 share options: 29 September 2017 to 28 September 2024 (ii) 9,259,993 share options: 29 September 2018 to 28 September 2024 (iii) 8,560,015 share options: 29 September 2019 to 28 September 2024	3.58	3.40
Eligible participants	17,650,000	0	0	2,533,333	0	15,116,667	7 October 2015	(i) 5,038,889 share options: 7 October 2018 to 6 October 2025 (ii) 5,038,889 share options: 7 October 2019 to 6 October 2025 (iii) 5,038,889 share options: 7 October 2020 to 6 October 2025	3.75	3.75

Name of grantee	No. of share options outstanding at the beginning of the period	No. of share options granted during the period	No. of share options cancelled during the period	No. of share options lapsed during the period	No. of share options exercised during the period	No. of share options outstanding at the end of the period	Date of Grant	Period during which share options are exercisable	Exercise price per share (HK$)	Closing price of the shares immediately before the date of grant (HK$)
Eligible participants	4,500,000	0	0	1,500,000	0	3,000,000	28 August 2017	(i) 1,000,000 share options: 28 August 2020 to 27 August 2027 (ii) 1,000,000 share options: 28 August 2021 to 27 August 2027 (iii) 1,000,000 share options: 28 August 2022 to 27 August 2027	3.88	3.88
Directors of the Company, employees of the Group	0	100,800,000	0	22,000,000	0	78,800,000	27 March 2018	(i) 15,760,000 share options: 27 September 2020 to 27 March 2028 (ii) 23,640,000 share options: 27 September 2021 to 27 March 2028 (iii) 39,400,000 share options: 27 September 2022 to 27 March 2028	4.54	4.54
Eligible participants	0	11,500,000	0	800,000	0	10,700,000	28 May 2018	(i) 2,140,000 share options: 28 May 2021 to 27 May 2028 (ii) 3,210,000 share options: 28 May 2022 to 27 May 2028 (iii) 5,350,000 share options: 28 May 2023 to 27 May 2028	5.122	4.87

The Company estimates the fair value of options granted using binomial tree model. The weighted average fair value of options granted during the year ended 31 December 2018, measured as at the dates of grant, was approximately HK$1.71 per option.

Significant estimates and assumptions are required to be made in determining the parameters for applying binomial tree model, including estimates and assumptions regarding the risk-free rate of return, expected dividend yield and volatility of the underlying shares and the expected life of the options. These estimates and assumptions could have a material effect on the determination of the fair value of the share options and the amount of such equity awards expected to vest, which may in turn significantly impact the determination of the share based compensation expense. The following assumptions were used to derive the fair values of share options granted in 2018:

	Share options granted on 27 March 2018	Share option granted on 28 May 2018
Dividends yield (%)	1.50	1.50
Spot stock price (HK$ per share)	4.54	4.78
Historical volatility (%)	37.90	37.90
Risk-free interest rate (%)	2.03	2.25
Expected life of option (year)	10	10

REPORT OF THE BOARD OF DIRECTORS

As at 31 December 2018, the total number of shares available for issue under the Share Option Scheme was 155,302,316 shares, which represented 9.31% of the shares in issue as at the date of this annual report.

The options issued pursuant to the Share Option Scheme will expire no later than 10 years from the date of grant of the option.

For any options granted to Directors, chief executives or substantial shareholders of the Company, or any of their respective associate, options to be granted to any of these persons shall be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of options). Where any option granted to a substantial shareholder or an independent non-executive Director, or any of their respective associates, would result in the shares issued or to be issued upon exercise of all options already granted and to be granted to such person in the 12 month period, (i) representing in aggregate over 0.1% of the shares in issue on the date of such grant; and (ii) having an aggregate value, based on the closing price of the shares, in excess of HK$5 million, such grant of options shall be subject to prior approval by resolutions of the shareholders (voting by way of poll).

The number of shares issued and to be issued in respect of options granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the total shares of the Company in issue, without prior approval from the shareholders of the Company and with such participants and his associates abstaining from voting.

The amount payable on acceptance of an option is HK$1.00, which will be payable on or before a prescribed acceptance date. In relation to any options granted under the Share Option Scheme, the exercise price is determined by the Directors, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The Share Option Scheme does not contain any minimum period for which an option must be held before it can be exercised. However, at the time of granting of the options, the Board may specify any such minimum period.

Unless otherwise terminated by the Board or the shareholders in general meeting in accordance with the terms of the Share Option Scheme, the Scheme shall be valid and effective for a period of 10 years from the date of its adoption which was 5 November 2010, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior to the expiry of the 10-year period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding companies or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate.

INTEREST AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

As at 31 December 2018, the interests or short positions of the Directors or chief executives of the Company then in office in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required, pursuant to the Model Code, are as follows:

DIRECTORS' INTEREST IN THE SHARES

Name of Director	Nature of Interest	Number of Shares	Approximate percentage of Shareholding
Mr. Song Zhenghuan (Notes 2&5)	Beneficiary of a trust/Beneficial owner/Interest of controlled corporation	768,822,427(L)	46.09%
Mr. Martin Pos	Beneficial owner	81,633,498(L)	4.89%
Mr. Michael Nan Qu	Beneficial owner	1,600,000(L)	0.01%
Mr. Liu Tongyou (Note 3)	Beneficial owner/ Interest of controlled corporation	31,457,573(L)	1.89%
Ms. Fu Jinqiu (Notes 2&5)	Beneficiary of a trust/Beneficial owner	768,822,427(L)	46.09%
Mr. Ho Kwok Yin, Eric	Beneficial owner	1,400,000(L)	0.08%
Mr. Iain Ferguson Bruce	Beneficial owner	1,200,000(L)	0.07%
Mr. Shi Xiaoguang	Beneficial owner	1,200,000(L)	0.07%
Ms. Chiang Yun	Beneficial owner	1,200,000(L)	0.07%
Mr. Xia Xinyue	Beneficial owner	20,000,000(L)	1.20%
Mr. Jin Peng	Beneficial owner	400,000(L)	0.02%

Notes:

(1) The letter "L" denotes the person's long position in such shares.

(2) Mr. Song and Ms. Fu are beneficiaries of Grappa Trust and Golden Phoenix Trust of which Credit Suisse Trust Limited (Singapore) and Credit Suisse Trust Limited (Guernsey) are the trustee respectively. See notes (2) to (4) of the section headed "Substantial Shareholders' Interests and Short Positions" for further details of this interest.

(3) Mr. Liu is interested in 29,057,573 shares of the Company held through Silvermount Limited, a company wholly owned by him. He also holds 2,400,000 share options of the Company.

(4) Each of the Directors is deemed to have an interest in the underlying Shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") in respect of the Share Options of the Company granted to him/her, details are as follows:

Name of Director	Number of Share Options granted
Mr. Song Zhenghuan	1,390,000
Mr. Martin Pos	37,400,000
Mr. Michael Nan Qu	1,600,000
Mr. Liu Tongyou	2,400,000
Ms. Fu Jinqiu	1,390,000
Mr. Ho Kwok Yin, Eric	1,400,000
Mr. Iain Ferguson Bruce	1,200,000
Mr. Shi Xiaoguang	1,200,000
Ms. Chiang Yun	1,200,000
Mr. Xia Xinyue	20,000,000
Mr.Jin Peng	400,000

(5) Since Ms. Fu is Mr. Song's spouse, each of Mr. Song and Ms. Fu is deemed to have an interest in the underlying Shares of the Company within the meaning of Part XV of the SFO in respect of the Share Options of the Company granted to each of them.

REPORT OF THE BOARD OF DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2018, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interest and/or short position in the shares or the underlying shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Name	Capacity	Number of Shares	Approximate Percentage of Shareholding
Cayey Enterprises Limited (Note 2)	Interest of Controlled Corporation/ Beneficial Owner	548,994,581(L)	32.91%
Credit Suisse Trust Limited (Singapore) (Note 2)	Trustee	548,994,581(L)	32.91%
Grappa Holdings Limited (Note 2)	Interest of Controlled Corporation	548,994,581(L)	32.91%
Pacific United Developments Limited ("PUD") (Note 2)	Beneficial Owner	409,518,229(L)	24.68%
Sure Growth Investments Limited (Note 3)	Beneficial Owner	129,293,975(L)	7.75%
FIL Limited	Investment Manager	118,499,000(L)	7.10%
Pandanus Associates Inc.	Investment Manager	118,499,000(L)	7.10%
Pandanus Partners L.P.	Investment Manager	118,499,000(L)	7.10%
Credit Suisse Trust Limited (Guernsey) (Note 4)	Trustee	87,753,871(L)	5.26%
Golden Phoenix Limited	Interest of Controlled Corporation	87,753,871(L)	5.26%
Rosy Phoenix Limited (Note 4)	Beneficial owner	87,753,871 (L)	5.26%
Pioneer Investment Management Ltd	Investment Manager	84,333,000 (L)	5.06%

Notes:

(1) The letter "L" denotes the person's long position in such shares.

(2) PUD is owned as to approximately 52.37% by Cayey Enterprises Limited, which in turn is, as at 31 Decmber 2018, wholly owned by Grappa Holdings Limited the issued share capital of which is owned as to 50% by Seletar Limited and as to 50% by Serangoon Limited, as nominees for Credit Suisse Trust Limited (Singapore), which is the trustee holding 548,994,581 interest on trust for the beneficiaries of the Grappa Trust. The beneficiaries of the Grappa Trust include Mr. Song, Ms. Fu and family members of Mr. Song and Ms. Fu. The Grappa Trust is a revocable discretionary trust established under the laws of Singapore.

(3) Sure Growth Investments Limited is owned as to 44.44% by Mr. Song, as to 22.22% by Ms. Fu, as to 11.11% by Mr. Liu Tongyou, executive director of the Company and as to 5.56% by Mr. Michael Nan Qu, executive director of the Company.

(4) Rosy Phoenix Limited is indirectly held by Credit Suisse Trust Limited (Guernsey) as the trustee of the Golden Phoenix Trust; Ms. Fu is the settlor of the Golden Phoenix Trust and Credit Suisse Trust Limited (Guernsey) is the trustee holding 87,753,871 interest on trust for the beneficiaries that include Ms. Fu.

SUBSIDIARIES

The Group's operations are conducted worldwide through its direct or indirect subsidiaries. Details of the principal subsidiaries of the Company as at 31 December 2018 are set out in note 1 to the Financial Statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2018.

CONNECTED TRANSACTIONS

The Group's related parties transactions marked with "#" for the year ended 31 December 2018 set out in note 38 to the Financial Statements constitute continuing connected transactions as defined in chapter 14A of the Listing Rules and the Company has complied with the disclosure requirements in chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS WHICH ARE EXEMPTED FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT, BUT SUBJECT TO THE REPORTING, ANNUAL REVIEW AND ANNOUNCEMENT REQUIREMENTS OF THE LISTING RULES

(A) FIRST PINGXIANG LEASE AGREEMENT

On 28 December 2012, Goodbaby Group Pingxiang Co., Ltd.* (好孩子集團平鄉有限公司) ("GGPX") and Goodbaby Child Products Pingxiang Co., Ltd.* (好孩子兒童用品平鄉有限公司) ("GCPX") entered into a lease agreement (the "2012/13/14 Pingxiang Lease Agreement"), pursuant to which GGPX agreed to lease certain premises located in Pingxiang County, Hebei Province, PRC (the "Properties") to GCPX for a three-year period commencing from 1 January 2013 and ended on 31 December 2015. On 7 October 2015, GGPX and GCPX entered into a renewal agreement (the "First Pingxiang Lease Agreement") to renew the 2012/13/14 Pingxiang Lease Agreement for a fixed term of 3 years commencing from 1 January 2016 and ended on 31 December 2018.

Pursuant to the First Pingxiang Lease Agreement, GGPX agreed to lease the Properties to GCPX principally for production and for manufacturing plants and manufacturing support facilities purposes. The aggregate annual rental of the Properties payable by GCPX to GGPX was determined with reference to the market rental rate as well as the qualities of other properties in the area surrounding the Properties under the First Pingxiang Lease Agreement and (where applicable) may be adjusted in accordance with the terms of the lease by mutual agreement or by the appointment of an independent valuator with international reputation and acceptable to both parties. Rental payment for each month is payable in advance on a monthly basis before the tenth day of each month.

The rental payable by GCPX to GGPX in relation to the Properties for the year ended 31 December 2018 was RMB8,929,256 (approximately HK$10,569,317).

The annual caps under the First Pingxiang Lease Agreement for each of the three years ending 31 December 2018 are RMB8,626,000, RMB9,001,000 and RMB9,376,000, respectively.

On 28 August 2018, GGPX and GCPX entered into a renewal agreement (the "2018 First Lease Agreement") to renew the First Pingxiang Lease Agreement for a term of 3 years commencing from 1 January 2019 and ending on 31 December 2021.

Pursuant to the 2018 First Lease Agreement, GGPX agreed to lease Property I (as defined in the announcement of the Company dated 28 August 2018) to GCPX principally for production and for manufacturing and manufacturing support facilities purposes. The aggregate lease area has increased from 78,131.1 m^2 under the First Pingxiang Lease Agreement to 84,070.8 m^2 under the 2018 First Lease Agreement to include a new property. The additional space will be used for manufacturing and ancillary services.

The aggregate annual rental payable by GCPX to GGPX under the 2018 First Lease Agreement was determined with reference to the prevailing market rent as well as the qualities of other properties in the area surrounding the properties under the 2018 First Lease Agreement (i.e. Property I) and may be adjusted in accordance with the terms of the lease by mutual agreement or by the appointment of an independent valuator with international reputation and acceptable to both parties. Rental payment for each month is payable in advance on a monthly basis before the tenth day of each month.

The annual caps under the 2018 First Lease Agreement for each of the three years ending 31 December 2021 are RMB10,593,000, RMB11,098,000 and RMB11,602,000, respectively.

GGPX is a wholly-owned subsidiary of 好孩子集團有限公司 (Goodbaby Group Co., Ltd.*) ("GGCL"), a company which is held as to approximately 67.11% by Mr. Song Zhenghuan, the Company's chairman and executive Director and his spouse. Accordingly, GGPX is a connected person of the Company under Chapter 14A of the Listing Rules and the entering of the First Pingxiang Lease Agreement constitute as a connected transaction for the Company.

For further details, please refer to the announcements of the Company dated 7 October 2015 and 28 August 2018.

* *For identification purpose only*

REPORT OF THE BOARD OF DIRECTORS

(B) SECOND PINGXIANG LEASE AGREEMENT

On 18 March 2014, GGPX and Goodbaby Child Products Co., Ltd.* (好孩子兒童用品有限公司) ("GCPC") entered into a lease agreement (the "2014 Pingxiang Lease Agreement"), pursuant to which GGPX agreed to lease certain premises located in Pingxiang County, Hebei Province, PRC (the "Property V") to GCPC commencing from 1 April 2014 and ended on 31 December 2015. On 7 October 2015, GGPX and GCPC entered into a renewal agreement (the "Second Pingxiang Lease Agreement") to renew the 2014 Pingxiang Lease Agreement for a fixed term of 3 years commencing from 1 January 2016 and ended on 31 December 2018. Pursuant to the Second Pingxiang Lease Agreement, GGPX agreed to lease Property V to GCPC principally for the usage as logistics warehouse purpose.

The aggregate annual rental payable by GCPC to GGPX under the Second Pingxiang Lease Agreement is determined with reference to the market rental rate as well as the qualities of other properties in the area surrounding the Property V under the Second Pingxiang Lease Agreement and (where applicable) may be adjusted in accordance with the terms of the lease by mutual agreement or by the appointment of an independent valuator with international reputation and acceptable to both parties. Rental payment for each month is payable in advance on a monthly basis before the tenth day of each month.

The rental payable by GCPC to GGPX in relation to the Property V for the year ended 31 December 2018 was RMB1,685,154 (approximately HK$1,994,671).

The annual caps under the Second Pingxiang Lease Agreement for each of the three years ending 31 December 2018 are RMB1,616,000, RMB1,693,000 and RMB1,770,000, respectively.

On 28 August 2018, GGPX and GCPC entered into a renewal agreement (the "2018 Second Lease Agreement") to renew the Second Pingxiang Lease Agreement for a term of 3 years commencing from 1 January 2019 and ending on 31 December 2021.

Pursuant to the 2018 Second Lease Agreement, GGPX agreed to lease Property II (as defined in the announcement of the Company dated 28 August 2018) to GCPC principally for the usage as logistics warehouse purpose. The aggregate annual rental payable by GCPC to GGPX under the 2018 Second Lease Agreement was determined with reference to the prevailing market rent as well as the qualities of other properties in the area surrounding the properties under the 2018 Second Lease Agreement (i.e. Property II) and may be adjusted in accordance with the terms of the lease by mutual agreement or by the appointment of an independent valuator with international reputation and acceptable to both parties. Rental payment for each month is payable in advance on a monthly basis before the tenth day of each month.

The annual caps under the 2018 Second Lease Agreement for each of the three years ending 31 December 2021 are RMB1,847,000, RMB1,924,000 and RMB2,001,000, respectively.

GGPX is a wholly-owned subsidiary of GGCL, a company which is held as to approximately 67.11% by Mr. Song Zhenghuan, the Company's chairman and executive Director and his spouse. Accordingly, GGPX is a connected person of the Company under Chapter 14A of the Listing Rules and the entering of the Second Pingxiang Lease Agreement constitute as a connected transaction for the Company.

For further details, please also refer to the announcements of the Company dated 7 October 2015 and 28 August 2018.

* *For identification purpose only*

(C) KUNSHAN LEASE AGREEMENT

On 7 October 2015, GCPC and GGCL entered into a lease agreement (the "Kunshan Lease Agreement") to renew the lease agreement dated 11 November 2010, pursuant to which GGCL agreed to lease certain premises located in Kunshan City, Jiangsu Province, PRC (the "Property VI") to GCPC for a three-year period commencing from 1 January 2016 and ending on 31 December 2018, for the usage as staff dormitories purpose.

The aggregate annual rental of the Property VI payable by GCPC to GGCL under the Kunshan Lease Agreement is determined with reference to the market rental rate as well as the qualities of the properties in the area surrounding the properties under the Kunshan Lease Agreement and (where applicable) may be adjusted in accordance with the terms of the lease by mutual agreement or by the appointment of an independent valuator with international reputation and acceptable to both parties. Rental payment for each month is payable in advance on a monthly basis before the tenth day of each month.

GCPC has an option to renew the Kunshan Lease Agreement at any time within the three month period before the expiry date of the Kunshan Lease Agreement for a further period of three years, on the condition that all applicable disclosure and/or shareholders' approval requirement under the Listing Rules shall have been complied with by the Company.

The rental payable by GCPC to GGCL in relation to the Property VI for the year ended 31 December 2018 was RMB350,000 (approximately HK$414,285).

The annual caps under the Kunshan Lease Agreement for each of the three years ending 31 December 2018 are RMB736,000, RMB773,000 and RMB812,000, respectively.

GGCL is a company which is held as to approximately 67.11% by Mr. Song Zhenghuan, the Company's chairman and executive Director and his spouse. Accordingly, GGCL is a connected person of the Company under Chapter 14A of the Listing Rules and the entering of the Kunshan Lease Agreement constitute as a connected transaction for the Company.

For further details, please also refer to the announcement of the Company dated 7 October 2015.

The Kunshan Lease Agreement was not renewed after its expiration on 31 December 2018.

(D) 2015 GIFT SUPPLY AGREEMENT

On 28 December 2012, GCPC and Goodbaby China Commercial Co., Ltd.* (好孩子(中國)商貿有限公司) ("GCCL") entered into a supply agreement (the "2012 Gift Supply Agreement"), pursuant to which GCCL agreed to supply infants' and children's products such as nursing products, paper products or toys (the "Gift Products") to GCPC to be used as free gifts for sales of GCPC's products, for a period of three years commencing on 1 January 2013 to 31 December 2015. On 7 October 2015, GCPC and GCCL entered into a renewal agreement (the "2015 Gift Supply Agreement") to renew the 2012 Gift Supply Agreement for a fixed term of 3 years commencing from 1 January 2016 and ending on 31 December 2018.

Pursuant to the 2015 Gift Supply Agreement, GCCL agreed to supply the Gift Products to GCPC to be used as free gifts for sales of GCPC's products. The purchase prices of the Gift Products payable by GCPC to GCCL under the 2015 Gift Supply Agreement are determined based on the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group as detailed in the announcement of the Company dated 7 October 2015 and will be no less favorable to the Group than those purchased from other independent suppliers of similar products. The terms of the 2015 Gift Supply Agreement were concluded after arm's length negotiations and were based on normal commercial terms in the parties' ordinary course of business. Upon receipt of the monthly invoice from GCCL, GCPC shall pay such transaction amount to GCCL within seven business days thereon.

Within three business days upon receipt by GCCL of purchase orders from GCPC, GCPC may collect at its own costs such Gift Products from the warehouse of GCCL, or GCCL may deliver such Gift Products to such venue of transportation receipt situated at Shanghai or Kunshan City, Jiangsu Province as designated by GCPC, for GCPC to transport at its own costs.

REPORT OF THE BOARD OF DIRECTORS

The purchases made by GCPC from GCCL in relation to the Gift Products for the year ended 31 December 2018 was RMB701 (approximately HK$830).

The annual caps under the 2015 Gift Supply Agreement for each of the three years ending 31 December 2018 are RMB7,000,000, RMB8,000,000 and RMB9,000,000, respectively.

GCCL is an indirect wholly owned subsidiary of Goodbaby China Holdings Limited (好孩子中國控股有限公司) ("GCHL"), which is held as to approximately 94.58% by companies ultimately controlled by the Chairman and his spouse, including PUD, a substantial shareholder of the Company. Accordingly, GCCL is an associate of Mr. Song Zhenghuan under the Listing Rules and thus it is regarded as a connected person of the Company under the Listing Rules and the entering of the 2015 Gift Supply Agreement constitute as a connected transaction for the Company.

For further details, please also refer to the announcement of the Company dated 7 October 2015.

The 2015 Gift Supply Agreement was not renewed after its expiration on 31 December 2018.

* *For identification purpose only*

CONTINUING CONNECTED TRANSACTION SUBJECT TO THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS OF THE LISTING RULES

(E) GCHL MASTER SUPPLY AGREEMENT

On 29 October 2012, GCPC entered into an agreement (the "2013 GCCL Supply Agreement") with GCCL for a period commenced from 1 January 2013 and ended on 31 December 2015, pursuant to which GCPC agreed to supply strollers, children's car seats, cribs, children's bicycles and other durable juvenile products (the "Products") to GCCL for domestic sales. On 7 October 2015, to further optimise and unify the Group's business relationship with GCCL, Goodbaby (Hong Kong) Limited ("GBHK"), which in turn holds 100% interest in GCPC and GCHL which in turn indirectly holds 100% interest in GCCL, entered into a master supply agreement (the "GCHL Master Supply Agreement"), pursuant to which GBHK agreed to supply, or procure its subsidiaries to supply, the Products to GCHL and its subsidiaries for domestic sales for a period commencing from 1 January 2016 and ending on 31 December 2018, and GCHL agreed to distribute or procure its subsidiaries to distribute the Products supplied by GBHK and its subsidiaries in the domestic market.

The purchase prices of the Products payable by GCHL and its subsidiaries to GBHK or its subsidiaries under the GCHL Master Supply Agreement are determined based on the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group as detailed in the announcement of the Company dated 7 October 2015 and will be no less favorable to the Group than those offered to independent purchasers of the Group's products. The terms of the GCHL Master Supply Agreement were concluded after arm's length negotiations and were based on normal commercial terms in the parties' ordinary course of business.

For the period from 1 January 2016 to 31 December 2016, payment pursuant to the GCHL Master Supply Agreement has been made within 120 days upon the date of invoice. Thereafter, payment term pursuant to the GCHL Master Supply Agreement would be determined based on annual review and adjustment based on the actual turnover days of the accounts receivable in the previous year, but in any event not more than 120 days.

Within three business days upon receipt by GBHK and/or its subsidiaries of specific purchase orders from GCHL and its subsidiaries, GCHL and its subsidiaries may collect at its own costs such Products from the warehouse of GBHK and/or its subsidiaries, or GBHK and/or its subsidiaries may deliver such Products to such venue of transportation receipt situated in Shanghai or Kunshan City, Jiangsu Province as designated by GCHL and its subsidiaries, for GCHL and/or its subsidiaries to transport at its own costs.

The transaction between GBHK and its subsidiaries and GCHL and its subsidiaries in relation to the Products sold for the year ended 31 December 2018 was RMB22,677,396 (approximately HK$26,842,617).

The annual caps under the GCHL Master Supply Agreement for each of the three years ending 31 December 2018 are RMB1,110,000,000, RMB1,450,000,000 and RMB1,870,000,000, respectively.

GCHL is a company which is held as to approximately 94.58% by companies ultimately controlled by the Chairman and his spouse, including PUD, a substantial shareholder of the Company. Accordingly, GCHL is an associate of the Chairman under the Listing Rules and thus it is regarded as a connected person of the Company under the Listing Rules and the entering of the GCHL Master Supply Agreement constitute as a connected transaction for the Company.

For further details, please also refer to the circular of the Company dated 5 November 2015.

After the major and connected transaction completed on 23 October 2017, the transactions under the GCHL Master Supply Agreement has been substantially eliminated.

The GCHL Master Supply Agreement was not renewed after its expiration on 31 December 2018.

On 28 August 2018, the Company and GCHL entered into a supply agreement (the "2018 Supply Agreement") for a fixed term of 3 years commencing from 1 January 2019 and ending on 31 December 2021.

Pursuant to the 2018 Supply Agreement, the Company agreed to supply, or procure its subsidiaries to supply, among other things, (i) durable juvenile products of strollers, children's car seats, cribs, children's bicycles and other durable juvenile products under the "Cybex", "Evenflo", "gb", "Happy Dino" and other brands; and (ii) non-durable juvenile products of infant, hygiene care, wipes, apparels, footwear and accessories and other non-durable juvenile products under "gb", "Happy Dino" and other brands ("MBC Products") to GCHL and its subsidiaries as non-exclusive distributors to distribute the MBC Products domestically in the PRC.

Subject to the 2018 Supply Agreement, the total price and terms of each order will be set out in individual contracts. The price of each MBC Product to be supplied by the Group under the 2018 Supply Agreement will be determined upon arm's length negotiation between the parties in the ordinary course of business of the Group.

To determine the prevailing market price, the production or outsourcing department of the Company will provide the cost analysis in relation to each MBC Product to the market and sales department for consideration. The prevailing market price is determined through market research involving obtaining questionnaires from potential customers and/or distributors based on the type and nature of the relevant product. At the same time, the market and sales department will also obtain quotes of similar products from not less than two competing brands unless such quotes are not available for certain types of products. Once the information on prevailing market price of the relevant product has been gathered through market research, the market and sales department will determine the proposed benchmark retail price and then discuss with the finance department on the gross profit requirement applicable to each relevant product in order to determine the mark-up rate as well as the discount rate applicable to each relevant product, and submit the final purchase price of the relevant product to the general manager of the market and sales department for final approval.

The price of each MBC Product will be determined along the following principles:

(1) Pre-determine a benchmark retail price for each MBC Product;

(2) Determine the discount rate; and

(3) Ensure the terms offered to GCHL and its subsidiaries, as connected persons of the Group, are no more favourable to the terms offered to independent third parties.

The annual caps under the 2018 Supply Agreement for each of the three years ending 31 December 2021 are RMB45,100,000, RMB63,400,000 and RMB89,600,000, respectively.

REPORT OF THE BOARD OF DIRECTORS

For further details, please also refer to the announcements of the Company dated 7 October 2015 and 28 August 2018.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the continuing connected transactions above of the Group.

Pursuant to Rule 14A.56 of the Listing Rules, the Board has engaged the auditors of the Company to perform certain agreed-upon procedures on the aforesaid continuing connected transactions. Based on the work performed, the auditors of the Company have provided a letter to the Board confirming that the aforesaid continuing connected transactions:

(i) have been approved by the Directors;

(ii) were entered into in accordance with the pricing policies of the Company;

(iii) were entered into in accordance with the terms of the relevant agreements governing such transactions; and

(iv) did not exceed the annual cap amounts.

A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) on normal commercial terms or better; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

SPECIFIC PERFORMANCE OBLIGATIONS OF CONTROLLING SHAREHOLDERS UNDER RULE 13.18 OF THE LISTING RULES

JULY 2018 FACILITY AGREEMENT

To refinance certain existing bank loans, on 16 July 2018, Goodbaby (Hong Kong) Limited, a wholly-owned subsidiary of the Company (as borrower), the Company (as guarantor), one financial institution (as mandated lead arranger, bookrunner, facility agent and security agent) and certain financial institutions (as original lenders) entered into a facility agreement (the "July 2018 Facility Agreement") in respect of a US$152,000,000 term loan facility with a term of 36 months from the first utilisation date. The total commitment under the July 2018 Facility Agreement may be increased by not more than US$98,000,000 by way of accession(s) of additional lender(s).

Under the July 2018 Facility Agreement, if Mr. Song together with his family (i) is no longer the single largest beneficial shareholder of the Company or (ii) no longer beneficially owns at least 20% of the issued share capital of the Company, then the borrower shall:

(1) immediately notify the facility agent thereof. Forthwith after the issuance of such notice, no further utilisation shall be made and all the available facility shall be automatically cancelled in full; and

(2) at the request of any lender prepay that lender's participation in the loans together with accrued interests thereon and break costs (if any).

As at the date of this report, US$164,000,000 remains outstanding in respect of this July 2018 Facility Agreement.

For further details, please also refer to the announcement of the Company dated 16 July 2018.

DECEMBER 2018 FACILITY AGREEMENT

To refinance certain existing bank loans, on 28 December 2018, Serena Merger Co., Inc., a wholly-owned subsidiary of the Company (as borrower), Goodbaby (Hong Kong) Limited, a wholly-owned subsidiary of the Company and the Company (as guarantors), one financial institution (as mandated lead arranger, bookrunner, facility agent and security agent) and certain financial institutions (as original lenders) entered into a facility agreement (the "December 2018 Facility Agreement") in respect of a US$100,000,000 term loan facility with a term of 36 months from the first utilisation date. The total commitment under the Facility Agreement may be increased by not more than US$20,000,000 by way of accession(s) of additional lender(s).

Under the December 2018 Facility Agreement, if Mr. Song together with his family (i) is no longer the single largest beneficial shareholder of the Company or (ii) no longer beneficially owns at least 20% of the issued share capital of the Company, then the borrower shall:

(1) immediately notify the facility agent thereof. Forthwith after the issuance of such notice, no further utilisation shall be made and all the available facility shall be automatically cancelled in full; and

(2) at the request of any lender prepay that lender's participation in the loans together with accrued interests thereon and break costs (if any).

The term loan facility under this December 2018 Facility Agreement was fully utilised in January 2019. As at the date of this report, US$100,000,000 remains outstanding in respect of this December 2018 Facility Agreement.

For further details, please also refer to the announcement of the Company dated 31 December 2018.

Save as disclosed above, as at 31 December 2018, the Company did not have other disclosure obligations under Rule 13.18 of the Listing Rules.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2018, the Group has a total of 12,397 full-time employees (as at 31 December 2017, the Group had a total of 15,516 full-time employees). For the year ended 31 December 2018, costs of employees, excluding Directors' emoluments, amounted to a total of HK$1,750.5 million (2017: HK$1,429.1 million). The increase in cost of employee is mainly attributable to the internal promotion of talented employees into senior or leadership roles, the recruitment of diverse talent into our global workforce and the Acquisition. The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale. The Group provides its employees with welfare schemes as required by applicable local laws and regulations.

The Company has also adopted a share option scheme on 5 November 2010. Details of the share option scheme are set out in the paragraph headed "Share Option Scheme" in this section.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

ENVIRONMENTAL PROTECTION

While maintaining our own production and operation capabilities, the Company also has reinforced the fusion of environmental protection, safety, health and social responsibility into our corporate development strategies by establishing the ESG report working team in line with our business development. The Company and the Group uphold the concept of sustainable development, focus attention on the design of research and development, production and operation environment, social and governance risks, strive to achieve sustainable growth.

The Company considers our staff, shareholders and potential investors, government authorities, suppliers, community individuals, media and consumers as our key stakeholders, and values highly the expectations and opinions of our stakeholders on us with respect to environment, society and governance. The Company has commenced multi-dimensional risk analysis, identified issues on the environment, society and importance of governance which are the concerns in our own development and of the relevant stakeholders, and an independent ESG report has been published.

REPORT OF THE BOARD OF DIRECTORS

For further relevant information regarding our performance on environment, society and governance during the current financial year, please refer to the Environmental, Social and Governance section in the annual report for details.

The Company has formulated the compliance procedures to ensure compliance with, in particular, the applicable laws, rules and regulations having material effect on us. The relevant employees and the relevant operating entities will be informed of any changes in the applicable laws, rules and regulations from time to time.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the corporate governance report contained in this annual report.

CONFIRMATION OF INDEPENDENT STATUS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors independent.

INDEMNITY AND INSURANCE PROVISIONS

The Company has arranged appropriate directors and officers liability insurance in respect of legal action against Directors. Also, each Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto in accordance with the Articles of Association.

EXCHANGE RISKS

Details of the exchange risks are set out in note 41 to the Financial Statements.

PURCHASE, SALE, REDEMPTION OR RE-PURCHASE OF SHARES

There was no purchase, sale, redemption and re-purchase of any listed securities of the Company by the Company or any of its subsidiaries during the year ended 31 December 2018.

DISCLOSURE UNDER RULE 13.20 OF THE LISTING RULES

The Directors are not aware of any circumstances resulting in the responsibility of disclosure under Rule 13.20 of the Listing Rules regarding the provision of advances by the Company to an entity.

DISCLOSURE OF INFORMATION OF DIRECTORS UNDER RULES 13.51(2) AND 13.51B(1) OF THE LISTING RULES

Changes in Directors' biographical details since the date of the 2018 interim report of the Company, which are required to be disclosed pursuant to Rules 13.51(2) and 13.51(B)(1) of the Listing Rules, are set out below.

There is no change of information of each Director that is required to be disclosed under Rules 13.51(2) and 13.51B(1) of the Listing Rules since the publication of the 2018 interim report of the Company.

EVENT AFTER THE REPORTING PERIOD

Details of the event after the reporting period of the Group are set out in note 43 to the Financial Statements.

FINANCIAL SUMMARY

The summary of the results, assets and liabilities of the Group in the past five financial years is set out from page 239 to page 240 of this report.

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive rights in the articles of association of the Company or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENT PUBLIC FLOAT

The Company has maintained the public float as required by the Listing Rules for the year ended 31 December 2018.

AUDITORS

The financial statements of the Company for the year ended 31 December 2018 have been audited by Ernst & Young which will retire, and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

A resolution for the re-appointment of Ernst & Young as auditors of the Company is to be proposed at the forthcoming annual general meeting.

For and on behalf of the Board of Directors
Song Zhenghuan
Chairman

25 March 2019

Goodbaby
International

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Goodbaby International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Goodbaby International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 113 to 238, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standard Board ("IASB") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountant ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill and intangible assets with indefinite lives	
The goodwill and other intangible assets with indefinite lives of the Group arose from business combinations, amounted to HK$2,682 million and HK$1,686 million as at 31 December 2018, which represented 25% and 16% of the total assets, respectively. The Group is required to perform impairment testing on goodwill and intangible assets with indefinite life annually. Management's assessment process involves significant estimates and judgements, including assessing expected future cash flow forecasts, associated growth rates, budgeted gross margins and the discount rates applied. The Group's disclosures about goodwill and intangible assets with indefinite lives are included in Note 2.4, Note 3 and Note 16 to the financial statements.	Our audit procedures, among others, included an assessment of the evaluation of management and testing of key assumptions, methodologies, cash-generating unit determination, cash flow forecast and other data used by the Group. In performing audit procedures, we checked the sales assumption to historical actual sales with growth rates comparable to the market and assessed budgeted gross margin against historical trend and the discount rate assumption against cost of equity and cost of debt of comparable companies. We also involved our internal specialists to assist us in assessing the assumptions and methodologies used by the Group. We also focused on the adequacy of the Group's disclosures of the assumptions to which the outcome of the impairment test is more sensitive.
Provision for product liabilities	
As at 31 December 2018, the provisions for product liabilities amounted to HK$72 million. The Group made provisions for product liabilities in relation to the indemnity provided to its customers for damages or injuries caused in connection with the use of the Group's sold products. The provision for product liabilities involved significant management estimation and judgments based upon estimated future costs to be incurred in claims. The Group engaged an external valuation expert to perform an estimation of product liabilities obligation, and there were significant estimates included in the management's analysis and projection, such as discount rates used and an assessment on possible outcome of the claims based on historical experience. The Group's disclosures about provision for product liabilities are included in Note 2.4, Note 3 and Note 27 to the financial statements.	Our audit procedures, among others, included understanding the basis for the provisions made and assessing the consistency of the provisioning policy applied. We also assessed management estimation and key assumptions by reference to the historical experience and trend, and checked subsequent claims after the end of the reporting period. In performing our audit procedures, we involved our internal valuation specialists to assess the valuation methodology used and key assumptions applied to calculate the provision. We also obtained confirmations from external legal counsels for those claims in progress regarding product liabilities.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ho Siu Fung, Terence.

Ernst & Young
Certified Public Accountants
Hong Kong
25 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2018

	Notes	2018	2017
		(HK$'000)	
Revenue	5	8,629,115	7,142,566
Cost of sales		(4,967,782)	(4,395,786)
Gross profit		3,661,333	2,746,780
Other income and gains	5	98,303	41,115
Selling and distribution expenses		(2,208,873)	(1,332,515)
Administrative expenses		(1,207,135)	(1,103,495)
Other expenses		(16,803)	(39,429)
Finance income	6	3,867	4,617
Finance costs	7	(123,576)	(65,506)
Share of profits and losses of joint ventures		407	(29)
PROFIT BEFORE TAX	8	**207,523**	**251,538**
Income tax expense	11	(40,692)	(67,132)
PROFIT FOR THE YEAR		**166,831**	**184,406**
Attributable to:			
Owners of the parent		163,764	179,350
Non-controlling interests		3,067	5,056
		166,831	184,406
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	13		
Basic			
For profit for the year (HK$)		0.10	0.15
Diluted			
For profit for the year (HK$)		0.10	0.15

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2018

	2018	2017
	(HK$'000)	
PROFIT FOR THE YEAR	**166,831**	**184,406**
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedges		
Effective portion of changes in fair value of hedging instruments arising during the year	(7,157)	(4,806)
Reclassification adjustments for (gains)/losses included in the consolidated statement of profit or loss	(10,046)	20,165
Income tax effect	3,137	(2,899)
	(14,066)	12,460
Exchange differences on translation of foreign operations	(303,100)	251,305
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	(317,166)	263,765
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Actuarial gains of defined benefit plans	4,389	2,942
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	4,389	2,942
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(312,777)**	**266,707**
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(145,946)**	**451,113**
Attributable to:		
Owners of the parent	(148,930)	443,445
Non-controlling interests	2,984	7,668
	(145,946)	**451,113**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2018

	Notes	31 December 2018	31 December 2017
		(HK$'000)	
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,077,786	1,040,743
Prepaid land lease payments	15	50,925	55,740
Goodwill	16	2,682,108	2,789,325
Other intangible assets	17	2,238,039	2,371,199
Investments in joint ventures		5,078	5,216
Deferred tax assets	30	151,589	112,980
Other long-term assets	18	7,999	7,224
Total non-current assets		6,213,524	6,382,427
CURRENT ASSETS			
Inventories	19	1,943,977	1,861,276
Trade and notes receivables	20	1,097,040	1,171,738
Prepayments and other receivables	21	418,987	337,215
Due from a related party	38	11,571	–
Financial assets designated at fair value through profit or loss	22	–	138,088
Cash and cash equivalents	23	926,952	952,153
Time deposits	23	3,447	84,054
Pledged time deposits	23	–	15,370
Derivative financial instruments	24	2,987	22,250
Total current assets		4,404,961	4,582,144
CURRENT LIABILITIES			
Trade and bills payables	25	1,439,374	1,312,573
Other payables and accruals	26	760,566	904,996
Due to related parties	38	–	99,143
Income tax payable		16,497	55,483
Provision	27	37,446	39,200
Interest-bearing bank loans and other borrowings	28	887,462	1,341,663
Derivative financial instruments	24	1,058	4,408
Defined benefit plan liabilities	29	705	391
Dividends payable		8	8
Total current liabilities		3,143,116	3,757,865

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2018

	Notes	31 December 2018	31 December 2017
		(HK$'000)	
NET CURRENT ASSETS		**1,261,845**	**824,279**
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,475,369**	**7,206,706**
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	28	1,889,728	1,395,136
Provision	27	44,984	54,717
Defined benefit plan liabilities	29	7,281	11,049
Other liabilities	31	13,953	14,089
Deferred tax liabilities	30	556,317	565,848
Total non-current liabilities		2,512,263	2,040,839
Net assets		4,963,106	5,165,867
EQUITY			
Equity attributable to owners of the parent			
Share capital	32	16,680	16,662
Reserves	34	4,898,040	5,091,222
		4,914,720	5,107,884
Non-controlling interests		48,386	57,983
Total equity		4,963,106	5,165,867

SONG Zhenghuan
Director

LIU Tongyou
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2018

	Attributable to owners of the parent												
	Share capital	Share premium	Share option reserve	Statutory reserve funds	Cumulative translation adjustments	Defined benefit plans	Merger reserve	Capital reserve	Hedging reserve	Retained earnings	Total	Non-controlling interests	Total equity
	(HK$'000)												
	(note 32)			*(note 34)*		*(note 29)*	*(note 34)*						
At 1 January 2017	11,151	1,171,846	41,748	160,965	(71,800)	(1,841)	153,975	(20,244)	–	994,480	2,440,280	37,882	2,478,162
Profit for the year	–	–	–	–	–	–	–	–	–	179,350	179,350	5,056	184,406
Remeasurement effects of defined benefit plans	–	–	–	–	–	2,942	–	–	–	–	2,942	–	2,942
Cash flow hedges, net of tax	–	–	–	–	–	–	–	–	12,460	–	12,460	–	12,460
Exchange differences on translation	–	–	–	–	248,693	–	–	–	–	–	248,693	2,612	251,305
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**248,693**	**2,942**	**–**	**–**	**12,460**	**179,350**	**443,445**	**7,668**	**451,113**
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	14,557	14,557
Dividends	–	(55,885)	–	–	–	–	–	–	–	–	(55,885)	(2,124)	(58,009)
Issue of shares	5,361	2,246,258	–	–	–	–	–	–	–	–	2,251,619	–	2,251,619
Share issue expenses	–	(17,535)	–	–	–	–	–	–	–	–	(17,535)	–	(17,535)
Share options exercised	150	50,790	(13,890)	–	–	–	–	–	–	–	37,050	–	37,050
Profit appropriation	–	–	–	16,799	–	–	–	–	–	(16,799)	–	–	–
Equity-settled share option arrangements	–	–	8,910	–	–	–	–	–	–	–	8,910	–	8,910
At 31 December 2017 and 1 January 2018	**16,662**	**3,395,474**	**36,768**	**177,764**	**176,893**	**1,101**	**153,975**	**(20,244)**	**12,460**	**1,157,031**	**5,107,884**	**57,983**	**5,165,867**
Profit for the year	–	–	–	–	–	–	–	–	–	163,764	163,764	3,067	166,831
Remeasurement effects of defined benefit plans	–	–	–	–	–	4,389	–	–	–	–	4,389	–	4,389
Cash flow hedges, net of tax	–	–	–	–	–	–	–	–	(14,066)	–	(14,066)	–	(14,066)
Exchange differences on translation	–	–	–	–	(303,017)	–	–	–	–	–	(303,017)	(83)	(303,100)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(303,017)**	**4,389**	**–**	**–**	**(14,066)**	**163,764**	**(148,930)**	**2,984**	**(145,946)**
Contribution from a non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	3,754	3,754
Dividends	–	(83,401)	–	–	–	–	–	–	–	–	(83,401)	(16,335)	(99,736)
Put option over non-controlling interests	–	–	–	–	–	–	–	(1,407)	–	–	(1,407)	–	(1,407)
Share options exercised	18	8,328	(2,011)	–	–	–	–	–	–	–	6,335	–	6,335
Profit appropriation	–	–	–	22,443	–	–	–	–	–	(22,443)	–	–	–
Equity-settled share option arrangements	–	–	34,239	–	–	–	–	–	–	–	34,239	–	34,239
As at 31 December 2018	**16,680**	**3,320,401***	**68,996***	**200,207***	**(126,124)***	**5,490***	**153,975***	**(21,651)***	**(1,606)***	**1,298,352***	**4,914,720**	**48,386**	**4,963,106**

* These reserve accounts comprise the consolidated reserves of HK$4,898,040,000 (2017: HK$5,091,222,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES	(HK$'000)	
Profit before tax	207,523	251,538
Adjustments for:		
Depreciation and amortisation	290,553	228,971
Loss on disposal of items of property, plant and equipment	12,718	9,457
Fair value losses/(gains), net		
Cash flow hedges (transfer from equity)	723	(1,435)
Derivative instruments – transactions not qualifying as hedges	(3,680)	(3,434)
Share of profits and losses of joint ventures	(407)	29
(Reversal of)/write-down of inventories	(6,442)	7,970
Provision for impairment of receivables	22,515	34,286
Decrease/(increase) in derivative financial assets	19,263	(22,250)
(Decrease)/increase in derivative financial liabilities	(3,350)	4,408
Interest expense	123,576	65,506
Interest income	(3,867)	(4,617)
Gain on wealth investment products received	(407)	(264)
Decrease in defined benefit plan liabilities	(3,454)	(1,665)
Decrease/(increase) in other liabilities	(136)	1,614
Increase in inventories	(76,259)	(380,676)
Decrease/(increase) in trade and notes receivables	52,183	(202,733)
Increase in prepayments and other receivables	(112,585)	(57,084)
Increase in amounts due from related parties	(11,571)	(41,040)
Decrease in amounts due to related parties	2,629	(2,638)
(Increase)/decrease from other long-term assets	(775)	621
Increase in pledged time deposits	–	(15,370)
Increase in trade and bills payables	126,801	181,421
(Decrease)/increase in other payables and accruals	(98,675)	62,804
Decrease in provision	(11,487)	(33,719)
Income tax paid	(127,818)	(28,075)
Equity-settled share option expenses	34,239	8,910
Net cash flows generated from operating activities	431,810	62,535

CASH FLOWS FROM INVESTING ACTIVITIES	Notes	2018	2017
		(HK$'000)	
Investment in a joint venture		–	(4,370)
Acquisition of subsidiaries		–	(1,112,938)
Purchase of property, plant and equipment		(376,080)	(284,931)
Purchase of intangible assets		(24,810)	(11,595)
Payment of acquisition related cost		(38,015)	–
Proceeds from disposal of available-for-sale financial investments		138,088	–
Purchases of available-for-sale investments		–	(138,088)
Interest received		2,411	3,161
Gain on wealth investment products received		407	264
Decrease/(increase) in time deposits		80,607	(84,054)
Repayment of advances to related parties		–	329,193
Proceeds from disposal of intangible assets		49	–
Proceeds from disposal of items of property, plant and equipment		47,229	19,211
Net cash flows used in investing activities		(170,114)	(1,284,147)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		6,335	37,050
Contribution from a non-controlling interest		3,754	–
Proceeds from borrowings		2,250,093	3,329,686
Repayment of borrowings		(2,199,560)	(1,899,180)
Interest paid		(131,315)	(61,626)
Decrease in pledged time deposits		15,370	25,367
Decrease in amounts due to related parties		(101,772)	–
Dividends paid		(83,401)	(55,885)
Dividends paid to a non-controlling interest		(16,335)	–
Net cash flows (used in)/generated from financing activities		(256,831)	1,375,412
NET INCREASE IN CASH AND CASH EQUIVALENTS		**4,865**	**153,800**
Cash and cash equivalents at beginning of year		952,153	758,153
Effect of foreign exchange rate changes, net		(30,066)	40,200
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**926,952**	**952,153**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands on 14 July 2000 as an exempted company with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 24 November 2010.

The Group is principally engaged in the manufacture and distribution of products for children.

INFORMATION ABOUT SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at the reporting date are as follows:

Name of company	Place and date of incorporation/registration	Percentage of equity interest attributable to the Company		Paid-in/issued and fully paid share capital	Principal activities
Subsidiaries		**Direct**	**Indirect**		
Goodbaby (Hong Kong) Limited ("GBHK")	Hong Kong, 23 July 1999	100%	–	HK$1,000	Investment holding and sales agent company
Goodbaby Child Products Co., Ltd. ("GCPC")	The People's Republic of China ("PRC"), 18 November 1994	–	100%	US$51,500,000	Manufacture, distribution and sale of safety belts, cloth sets, car safety seats, car components for children, infant strollers and bicycles
Ningbo Goodbaby Child Products Co., Ltd. ("GCPN")	PRC, 9 September 1996	–	85%	RMB10,000,000	Manufacture, distribution and sale of child cloth beds, infant strollers, bath chairs for children and stadium chairs
Paragon Child Product Co., Ltd. ("PCPC")	PRC, 5 November 2008	–	100%	RMB10,000,000	Manufacture, distribution and sale of bicycles, sports utilities, e-cars and wooden products.
Pingxiang Goodbaby Child Products Co., Ltd. ("GCPX")	PRC, 26 December 2011	–	100%	RMB2,000,000	Manufacture, distribution and sale of child cloth beds, infant strollers, bath chairs for children and stadium chairs
EQO Testing and Certification Services Co., Ltd. ("EQTC")	PRC, 30 November 2012	–	100%	RMB5,000,000	Testing of children's products, tools, electronic products and advisory for risk valuation of product quality
Serena Merger Co., Inc. ("SERE")	U.S., 28 May 2014	–	100%	US$1,000	Investment holding
Evenflo Company, Inc. ("EFCD")	U.S., 1 October 1992	–	100%	US$86,500	Manufacture, distribution and sale of car safety seats, infant strollers and baby related products
Muebles Para Ninos De Baja, S.A. De C.V. ("EFMX")	Mexico, 29 June 1987	–	100%	Peso1,720,000	Manufacture of baby related products
Goodbaby Canada Inc. ("EFCA")	Canada, 18 March 1991	–	100%	US$7,000	Distribution and sale of baby related products

1. CORPORATE AND GROUP INFORMATION (Continued)

INFORMATION ABOUT SUBSIDIARIES (Continued)

Particulars of the Company's principal subsidiaries as at the reporting date are as follows: (Continued)

Name of company	Place and date of incorporation/ registration	Percentage of equity interest attributable to the Company		Paid-in/issued and fully paid share capital	Principal activities
Subsidiaries		Direct	Indirect		
Columbus Trading-Partners GmbH & Co. KG ("CTPE")	Germany, 26 February 2016	–	100%	EUR100	Distribution and sale of car safety seats, infant strollers and other parenting products
Goodbaby Czech Republic s.r.o. ("GBCZ")	Czech Republic, 8 February 2016	–	100%	CZK200,000	IT services and a share service centre
Goodbaby (Europe) Gmbh & Co KG ("GEGC")	Germany, 28 January 2014	–	100%	EUR100	Investment holding
Cybex GmbH ("CBGM")	Germany, 5 March 2014	–	100%	EUR33,400	Purchase, sale, holding and management of participating interests and development and production of child car-seats, strollers, child carrying systems, pushchairs, high chairs and other products for children
GB GmbH ("GBGM")	Germany, 21 August 2015	–	100%	EUR25,000	Purchase, sale, holding and management of participating interests and development and production of child car-seats, strollers, child carrying systems, pushchairs, high chairs and other products for children
Columbus Trading Partners USA Inc. ("CBUS")	U.S., 24 November 2014	–	100%	US$1	Distribution and sale of car safety seats, infant strollers and other parenting products
Columbus Trading Partners Scandinavia A/S ("CBDK")	Denmark, 1 September 2015	–	70%	DKK500,000	Distribution and sale of car safety seats, infant strollers and other parenting products
Columbus Trading Partners Japan Limited ("CBJP")	Japan, 20 February 2018	–	80%	JPY2,200,000	Distribution and sale of car safety seats, infant strollers and other parenting products
Oasis Dragon Limited ("ODLI")	Samoa, 13 November 2015	100%	–	US$1	Investment holding
Goodbaby (China) Retail & Service Company ("GRCN")	PRC, 11 May 2016	–	100%	RMB50,000,000	Wholesale and retail of children's products
Shanghai Goodbaby Children Fashion Co., Ltd. ("SHFS")	PRC, 20 January 1998	–	100%	RMB20,000,000	Distribution and retail business of children's products
Goodbaby Nantong Fashion Co., Ltd. ("NTFS")	PRC, 19 March 2015	–	80%	RMB10,000,000	Wholesale and retail of children's products

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2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for call and put options over non-controlling interests, derivative financial instruments and wealth management products which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.1 BASIS OF PREPARATION (Continued)

BASIS OF CONSOLIDATION (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained earnings, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements:

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

Except for the amendments to IFRS 4 and *Annual Improvements to IFRSs 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(A) Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(B) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

		IAS 39 measurement					IFRS 9 measurement	
	Notes	Category	Amount HK$'000	Re-classification HK$'000	ECL HK$'000	Other HK$'000	Amount HK$'000	Category
Available-for-sale investments		AFS[1]	138,088	(138,088)	–	–	–	N/A
To: Financial assets at fair value through profit or loss	(i)			(138,088)	–	–		
Trade receivables	(ii)	L&R[2]	1,171,738	–	–	–	1,171,738	AC[3]
Financial assets included in prepayments and other receivables		L&R	232,285	–	–	–	232,285	AC
Financial assets at fair value through profit or loss		FVPL[4]	–	138,088	–	–	138,088	FVPL (mandatory)
From: Available-for-sale investments	(i)			138,088	–	–		
Derivative financial instruments		FVPL	22,250	–	–	–	22,250	FVPL
Other long-term assets – call options over non-controlling interests		FVPL	4,160	–	–	–	4,160	FVPL
Other long-term assets – deposit for insurance		L&R	3,064	–	–	–	3,064	AC
Pledged time deposits		L&R	15,370	–	–	–	15,370	AC
Time deposits		L&R	84,054	–	–	–	84,054	AC
Cash and cash equivalents		L&R	952,153	–	–	–	952,153	AC
			2,623,162	–	–	–	2,623,162	

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(B) (Continued)

Classification and measurement (Continued)

	Notes	IAS 39 measurement		Re-classification HK$'000	ECL HK$'000	Other HK$'000	IFRS 9 measurement	
		Category	Amount HK$'000				Amount HK$'000	Category
Financial liabilities								
Trade and bills payables		AC	1,312,573	–	–	–	1,312,573	AC
Financial liabilities included in other payables and accruals		AC	190,419	–	–	–	190,419	AC
Interest-bearing bank and and other borrowings		AC	2,736,799	–	–	–	2,736,799	AC
Derivative financial instruments		FVPL	4,408	–	–	–	4,408	FVPL
Due to a related party		AC	99,143	–	–	–	99,143	AC
Other liabilities – put options over non-controlling interests		AC	10,460	–	–	–	10,460	AC
			4,353,802	**–**	**–**	**–**	**4,353,802**	

1 AFS: Available-for-sale investments

2 L&R: Loans and receivables

3 AC: Financial assets or financial liabilities at amortised cost

4 FVPL: Financial assets or financial liabilities at fair value through profit or loss

Notes:

(i) The Group has classified its unlisted investments previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these non-equity investments did not pass the contractual cash flow characteristics test in IFRS 9.

(ii) The gross carrying amounts of the trade receivables under the column "IAS 39 measurement – Amount" represent the amounts after adjustments for the adoption of IFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of IFRS 15 are included in note 2.2(c) to the financial statements.

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(B) (Continued)

Impairment

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9. Further details are disclosed in notes 20 to the financial statements.

	Impairment allowances under IAS 39 at 31 December 2017	Re-measurement	ECL allowances under IFRS 9 at 1 January 2018
	HK$'000		
Trade receivables	43,694	–	43,694

Hedge accounting

The Group has applied hedge accounting under IFRS 9 prospectively. At the date of initial application of IFRS 9, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Before the adoption of IFRS 9, the Group designated the change in fair value of the entire foreign currency forward contracts in its cash flow hedge relationships. Upon adoption of IFRS 9, the Group continues to designate the entire foreign currency forward contracts in the cash flow hedge relationships. Under IAS 39, all gains and losses recorded in the cash flow hedge reserve were eligible to be subsequently reclassified to the statement of profit or loss when the hedged items affected profit or loss. The adoption of the hedge accounting requirements of IFRS 9 has had no impact on the Group's financial statements.

(C) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 4 and 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(C) (Continued)

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018. The effect of adopting IFRS 15 is as follows:

- The comparative information for each of the primary financial statements has been presented based on the requirements of IAS 11, IAS 18 and related Interpretations; and

- The Group has disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to note 4 for the disclosure on disaggregated revenue. Disclosures for the comparative period in the notes to the financial statements have followed the requirements of IAS 11, IAS 18 and related Interpretations. As a result, the disclosure of disaggregated revenue in note 4 has not included comparative information under IFRS 15.

(D) Amendments to IAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(E) IFRIC 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

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2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	*Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23*[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of HK$251,686,000 and lease liabilities of HK$249,063,000 will be recognised at 1 January 2019.

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2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS IN AN ASSOCIATE AND A JOINT VENTURE

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of an associate and a joint venture is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate or joint venture are eliminated to the extent of the Group's investment in the associate or joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of an associate or joint venture is included as part of the Group's investment in associate or a joint venture.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for controls the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All of the components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BUSINESS COMBINATIONS AND GOODWILL (Continued)

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value either recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets of liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FAIR VALUE MEASUREMENT

The Group measures its derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT OF NON-FINANCIAL ASSETS

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RELATED PARTIES

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of items of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Depreciation is calculated on the straight-line basis over the estimated useful life of each item of property, plant and equipment, after taking into account the residual value as follows:

	Estimated useful lives	Estimated residual value
Freehold land	Not depreciated	–
Buildings	20 years	0-10%
Plant and machinery	5-15 years	0-10%
Motor vehicles	3-5 years	0-10%
Furniture and fixtures	3-15 years	–
Leasehold improvements	The lesser of lease terms and useful lives	–

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (Continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Trademarks

Trademarks are capitalised and amortised using the straight-line method over their estimated useful lives of ten to thirty years except for certain trademarks amounting to HK$1,686,186,000 (2017: HK$1,764,692,000) acquired through the business combinations of Columbus Holding GmbH, WP Evenflo Group Holdings, Inc. and Oasis Dragon Limited whose useful lives are indefinite, as their legal rights are capable of being renewed indefinitely at insignificant cost and therefore are perpetual in duration, and based on future financial performance of the Group, they are expected to generate positive cash flows indefinitely.

Computer software

Expenditure on computer software is capitalised and amortised using the straight-line method over its estimated useful life of five years to ten years.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INTANGIBLE ASSETS (OTHER THAN GOODWILL) (Continued)

Patents, non-compete agreement and customer relationship

Expenditure on acquired patents, a non-compete agreement and customer relationship is capitalised and amortised using the straight-line method over their estimated useful lives of five to twenty years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

LEASES

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LEASES (Continued)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

INVESTMENTS AND OTHER FINANCIAL ASSETS (POLICIES UNDER IFRS 9 APPLICABLE FROM 1 JANUARY 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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31 DECEMBER 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (POLICIES UNDER IFRS 9 APPLICABLE FROM 1 JANUARY 2018) (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (POLICIES UNDER IFRS 9 APPLICABLE FROM 1 JANUARY 2018) (Continued)

Financial assets designated at fair value through other comprehensive income (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (POLICIES UNDER IFRS 9 APPLICABLE FROM 1 JANUARY 2018) (Continued)

Financial assets at fair value through other comprehensive income (debt instruments)

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

INVESTMENTS AND OTHER FINANCIAL ASSETS (POLICIES UNDER IAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (POLICIES UNDER IAS 39 APPLICABLE BEFORE 1 JANUARY 2018) (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (POLICIES UNDER IAS 39 APPLICABLE BEFORE 1 JANUARY 2018) (Continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DERECOGNITION OF FINANCIAL ASSETS (POLICIES UNDER IFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND POLICIES UNDER IAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

IMPAIRMENT OF FINANCIAL ASSETS (POLICIES UNDER IFRS 9 APPLICABLE FROM 1 JANUARY 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT OF FINANCIAL ASSETS (POLICIES UNDER IFRS 9 APPLICABLE FROM 1 JANUARY 2018) (Continued)

General approach (Continued)

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

IMPAIRMENT OF FINANCIAL ASSETS (POLICIES UNDER IAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the assets have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT OF FINANCIAL ASSETS (POLICIES UNDER IAS 39 APPLICABLE BEFORE 1 JANUARY 2018) (Continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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31 DECEMBER 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT OF FINANCIAL ASSETS (POLICIES UNDER IAS 39 APPLICABLE BEFORE 1 JANUARY 2018) (Continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL LIABILITIES (POLICIES UNDER IFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND IAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, and loans and borrowings, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, derivative financial instruments and interest-bearing bank loans and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss (policies under IFRS 9 applicable from 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at fair value through profit or loss (policies under IAS 39 applicable before 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL LIABILITIES (POLICIES UNDER IFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND IAS 39 APPLICABLE BEFORE 1 JANUARY 2018) (Continued)

Financial liabilities at fair value through profit or loss (policies under IAS 39 applicable before 1 January 2018) (Continued)

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing borrowings and other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Financial guarantee contracts (policies under IFRS 9 applicable from 1 January 2018)

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL LIABILITIES (POLICIES UNDER IFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND IAS 39 APPLICABLE BEFORE 1 JANUARY 2018) (Continued)

Financial guarantee contracts (policies under IAS 39 applicable before 1 January 2018)

A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Put option over non-controlling interests

During the process of acquiring the majority equity interests of a subsidiary, the Group provides the non-controlling shareholder the right to dispose of its equity interests to the Group. The equity interests in the subsidiary held by the non-controlling shareholder shall be recognised as non-controlling interests in the consolidated financial statements of the Group. At the same time, for the put option, the Group shall assume the obligations to redeem in cash the equity interests in the subsidiary held by the non-controlling shareholder. The present value of the amount payable at the time of redemption of such put option shall be deducted from equity (other than non-controlling interests) and is recognised as a financial liability of the Group. Such financial liability shall be re-measured at the present value of the amount payable upon redemption in the subsequent period, with changes recognised in the consolidated statement of profit or loss.

DERECOGNITION OF FINANCIAL LIABILITIES (POLICIES UNDER IFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND IAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

OFFSETTING OF FINANCIAL INSTRUMENTS (POLICIES UNDER IFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND IAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (POLICIES UNDER IFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND IAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

Before 1 January 2018, the documentation included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group assessed the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges were expected to be highly effective in achieving offsetting changes in fair value or cash flows and were assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (POLICIES UNDER IFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND IAS 39 APPLICABLE BEFORE 1 JANUARY 2018) (Continued)

Initial recognition and subsequent measurement (Continued)

Starting from 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the statement of profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (POLICIES UNDER IFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND IAS 39 APPLICABLE BEFORE 1 JANUARY 2018) (Continued)

Cash flow hedges (Continued)

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the statement of profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

PROVISIONS

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

The Group provides for warranties in relation to the sale of certain products for general repair of defected occurring during the provision period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INCOME TAX

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and a joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INCOME TAX (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

GOVERNMENT GRANTS

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION (APPLICABLE FROM 1 JANUARY 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Some contracts for the sale of goods provide customers with rights of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION (APPLICABLE FROM 1 JANUARY 2018) (Continued)

Revenue from contracts with customers (Continued)

(a) Sale of goods (Continued)

(i) Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price.

(ii) Volume rebates

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognised.

(b) Rendering of testing services

Revenue from the rendering of testing services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CONTRACT LIABILITIES (APPLICABLE FROM 1 JANUARY 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

REVENUE RECOGNITION (APPLICABLE BEFORE 1 JANUARY 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership and title have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

CONTRACTS FOR SERVICES (APPLICABLE BEFORE 1 JANUARY 2018)

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SHARE-BASED PAYMENTS

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 33 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OTHER EMPLOYEE BENEFITS

Retirement benefits

Pursuant to the relevant regulations, the Group's subsidiaries which operate in Mainland China participate in a local municipal government retirement benefit scheme, whereby the Group is required to contribute a certain percentage of the basic salaries of its employees to the scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. The only obligation of the Group with respect to the scheme is to pay the ongoing required contributions under the scheme mentioned above. Contributions under the scheme are charged to the statement of profit or loss as incurred. There are no provisions under the scheme whereby forfeited contributions may be used to reduce future contributions.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group's U.S. operations and most other non-U.S. subsidiaries have separate defined contribution plans. The purpose of these defined contribution plans is generally to provide additional financial security during retirement by providing employees with an incentive to make regular savings. The Group's contributions to the plans are based on employee contributions or compensation.

Defined benefit plans

The Group operates defined benefit pension plans with details summarised in note 29. The costs of providing benefits under the defined benefit plans are determined using the projected unit credit actuarial valuation method.

Remeasurements arising from defined benefit plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to the consolidated profit or loss in subsequent periods.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OTHER EMPLOYEE BENEFITS (Continued)

Defined benefit plans (Continued)

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "cost of sales" and "administrative expenses" in the consolidated statement of profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

DIVIDENDS

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

FOREIGN CURRENCIES

These financial statements are presented in HK$, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FOREIGN CURRENCIES (Continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries and a joint venture are currencies other than the HK$. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into HK$ at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the cumulative exchange realignment. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries and a joint venture are translated into HK$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries and a joint venture which arise throughout the year are translated into HK$ at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose suitable discount rates in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2018 was approximately HK$2,682,108,000 (2017: HK$2,789,325,000). Further details are given in note 16.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

ESTIMATION UNCERTAINTY (Continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2018 was HK$50,893,000 (2017: HK$34,565,000). The amount of unrecognised tax losses at 31 December 2018 was HK$28,186,000 (2017: HK$5,744,000). Details of unrecognised tax losses as at the end of the reporting period are contained in note 30.

Write-down of inventories

The Group's inventories are stated at the lower of cost and net realisable value. The Group writes down its inventories based on estimates of the realisable value with reference to the age and conditions of the inventories, together with the economic circumstances on the marketability of such inventories. Inventories will be reviewed annually for write-down, if appropriate.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in the production and provision of services, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at the end of each of the year based on changes in circumstances. Further details of the property, plant and equipment are set out in note 14 to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

ESTIMATION UNCERTAINTY (Continued)

Provisions

Provisions for product warranties granted by the Group on its products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

The Group also makes provision for product liabilities which is based on estimated future costs to be incurred in claims. There are significant estimates included in the projection, which are the discount rate used and assessment on the possibility of outcome of the claims based on historical experience.

Defined benefit plans

The Group operates and maintains defined retirement benefit plans. The cost of providing the benefits in the defined retirement benefit plans is actuarially determined by utilising various actuarial assumptions and using the projected unit credit method. These assumptions include, without limitation, the selection of discount rates and healthcare trend rates.

Additional information regarding the retirement benefit plan is disclosed in note 29 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) Strollers and accessories segment, which engages in the research, design, manufacture and sale of strollers and accessories under the Group's own brands and third parties' brands;

(b) Car seats and accessories segment, which engages in the research, design, manufacture and sale of car seats and accessories under the Group's own brands and third parties' brands;

(c) Non-durable products segment, which includes maternity and baby-care products and apparel and home textile products; and

(d) Others segment, which engages in the research, design, manufacture and sale of other children's products under the Group's own brands and third parties' brands.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment revenue.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2018

	Strollers and accessories	Car seats and accessories	Non-durable products	Others	Consolidated
	(HK$'000)				
Segment revenue					
Sales to external customers	2,743,317	2,720,232	1,574,715	1,590,851	8,629,115
Segment results	**1,206,707**	**1,244,668**	**763,943**	**446,015**	**3,661,333**
Reconciliation:					
Other income and gains					98,303
Corporate and other unallocated expenses					(3,416,008)
Other expenses					(16,803)
Finance income					3,867
Finance costs					(123,576)
Share of profits and losses of joint ventures					407
Profit before tax					**207,523**
Other segment information:					
Impairment losses recognised in the statement of profit or loss	5,856	6,444	639	3,134	16,073
Depreciation and amortization	108,984	96,726	35,033	49,810	290,553

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2017

	Strollers and accessories	Car seats and accessories	Non-durable products	Others	Consolidated
	(HK$'000)				
Segment revenue					
Sales to external customers	2,275,317	2,877,287	301,481	1,688,481	7,142,566
Segment results	**801,111**	**1,315,575**	**140,881**	**489,213**	**2,746,780**
Reconciliation:					
Other income and gains					41,115
Corporate and other unallocated expenses					(2,436,010)
Other expenses					(39,429)
Finance income					4,617
Finance costs					(65,506)
Share of profits and losses of joint ventures					(29)
Profit before tax					**251,538**
Other segment information:					
Impairment losses recognised in the statement of profit or loss	9,298	17,833	109	15,016	42,256
Depreciation and amortisation	98,648	76,174	6,748	47,401	228,971

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

4. OPERATING SEGMENT INFORMATION (Continued)

GEOGRAPHICAL INFORMATION

(a) Revenue from external customers

	European market	North America market	Mainland China market	Other overseas markets	Total
	(HK$'000)				
Year ended 31 December 2018					
Segment revenue:					
Sales to external customers	2,171,256	2,720,492	3,142,165	595,202	8,629,115
Year ended 31 December 2017					
Segment revenue:					
Sales to external customers	2,032,216	2,819,528	1,681,228	609,594	7,142,566

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2018	2017
	(HK$'000)	
Mainland China	4,156,043	4,360,049
North America	1,015,832	1,023,544
Europe	880,694	879,492
	6,052,569	**6,263,085**

The non-current asset information above is based on the locations of the assets excluding financial instruments, deferred tax assets and investments in joint ventures.

INFORMATION ABOUT A MAJOR CUSTOMER

During the year ended 31 December 2018, revenue from sales to a third party major customer accounting for 10% or more of the total net sales of the Group was HK$994,197,000 (2017: HK$814,170,000). The revenue from sales to this customer was derived from sales by the strollers and accessories, car seats and accessories and others segments, including sales to a group of entities which are known to be under common control with this customer. There was no other single customer accounted for 10% or more of the total net sales of the Group in 2018. There was no other single customer accounted for 10% or more of the total net sales of the Group in 2017, except a related party disclosed in note 38 (b).

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018	2017
	(HK$'000)	
Revenue from contracts with customers		
Sale of goods	8,612,735	7,127,303
Rendering of testing services	16,380	15,263
	8,629,115	7,142,566

REVENUE FROM CONTRACTS WITH CUSTOMERS

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	Strollers and accessories	Car seats and accessories	Non-durables	Others	Total
	HK$'000				
Type of goods or services					
Sale of goods	2,743,317	2,720,232	1,574,715	1,574,471	8,612,735
Rendering of testing services	–	–	–	16,380	16,380
Total revenue from contracts with customers	2,743,317	2,720,232	1,574,715	1,590,851	8,629,115
Timing of revenue recognition					
Goods transferred at a point in time	2,743,317	2,720,232	1,574,715	1,574,471	8,612,735
Services transferred over time	–	–	–	16,380	16,380
Total revenue from contracts with customers	2,743,317	2,720,232	1,574,715	1,590,851	8,629,115
Revenue from contracts with customers					
External customers	2,743,317	2,720,232	1,574,715	1,590,851	8,629,115

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

5. REVENUE, OTHER INCOME AND GAINS (Continued)

REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

(i) Disaggregated revenue information (Continued)

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2018 (HK$'000)
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of goods	149,009
Rendering of test services	42
	149,051

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of goods and payment in generally due with 90 days from delivery, except for new customers, where payment in advance is normally required.

Rendering of testing services

The performance obligation is satisfied over time as services are rendered and short-term advances are normally required before rendering the services. Testing service contracts are for periods of one year or less, or are billed based on the time incurred.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially satisfied) as at 31 December 2018 are as follows:

	2018 (HK$'000)
Within one year	108,235

All the remaining performance obligations are expected to be recognised within one year.

5. REVENUE, OTHER INCOME AND GAINS (Continued)

	2018	2017
	(HK$'000)	
Other income and gains:		
Government grants (note (a))	75,688	25,658
Gain on sale of materials	9,320	3,317
Gain on wealth investment products (note (b))	407	264
Compensation income (note (c))	7,137	3,747
Service fee income (note (d))	–	373
Foreign exchange differences, net	611	–
Fair value (losses)/gains, net		
Cash flow hedges (transfer from equity)	(723)	1,435
Derivative instruments – transactions not qualifying as hedges	3,680	3,434
Others	2,183	2,887
Total	**98,303**	**41,115**

Note (a): The amount represents subsidies received from local government authorities in connection with certain financial support to local business enterprises. These government subsidies mainly comprised subsidies for export activities, subsidies for development, and other miscellaneous subsidies and incentives for various purposes.

Note (b): The amount represents the gain on disposal of wealth investment products.

Note (c): The amount represents the compensation received from customers as a result of cancellation of orders and suppliers as a result of defective products, early payment or shipment delay in the normal course of business.

Note (d): The amount represents the service fee income for information technology services and factory administrative services provided to third parties.

6. FINANCE INCOME

	2018	2017
	(HK$'000)	
Interest income on bank deposits	**3,867**	**4,617**

NOTES TO FINANCIAL STATEMENTS

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7. FINANCE COSTS

	2018	2017
	(HK$'000)	
Interest on bank loans	123,576	65,506

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2018	2017
	(HK$'000)	
Cost of inventories sold	4,960,648	4,390,563
Cost of services provided	7,134	5,223
Depreciation of items of property, plant and equipment	234,739	195,180
Amortisation of intangible assets	53,672	31,811
Amortisation of land lease payments	2,142	1,980
Research and development costs ("R&D")	366,258	376,077
Lease payments under operating leases in respect of properties	149,318	117,502
Auditors' remuneration	9,823	9,148
Employee benefit expense (including directors' remuneration):		
Wages, salaries and other benefits	1,666,617	1,398,483
Pension scheme contributions	99,785	60,037
Pension scheme costs (defined benefit plans)(including administrative expense)	2,631	3,014
Share option expense	34,239	8,910
	1,803,272	1,470,444
Transaction costs for acquisition of subsidiaries	–	27,298
Net foreign exchange (gain)/loss	(611)	23,217
Impairment of trade receivables	22,515	34,286
(Reversal of)/write-down of inventories	(6,442)	7,970
Product warranties and liabilities	37,368	31,205
Fair value losses/(gains), net		
Cash flow hedges (transfer from equity)	723	(1,435)
Derivative instruments – transactions not qualifying as hedges	(3,680)	(3,434)
Loss on disposal of items of property, plant and equipment	12,718	9,457
Bank interest income	(3,867)	(4,617)

9. DIRECTORS' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018	2017
	(HK$'000)	
Fees	3,747	2,318
Other emoluments:		
Salaries, allowances and benefits in kind	29,193	26,626
Performance-related bonuses	1,308	11,733
Equity-settled share option expenses	18,208	3,022
Pension scheme contributions	283	677
	48,992	42,058
Total	52,739	44,376

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS

The fees paid to independent non-executive directors during the year were as follows:

	2018	2017
	(HK$'000)	
Iain Ferguson Bruce	470	468
Shi Xiaoguang	314	312
Chiang Yun	314	312
Jin Peng	235	200
	1,333	**1,292**

There were no other emoluments payable to the independent non-executive directors in 2018 (2017: Nil).

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

9. DIRECTORS' REMUNERATION (Continued)

(B) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

2018

	Fees	Salaries, allowances and benefits in kind	Performance – related bonuses	Equity-settled share option expenses	Pension scheme contributions	Total remuneration
	(HK$'000)					
Executive directors:						
Song Zhenghuan	–	3,713	–	181	–	3,894
Michael, Qu Nan	–	3,199	588	312	61	4,160
Martin Pos	–	13,321	–	11,020	–	24,341
Liu Tongyou	–	3,233	–	312	111	3,656
Yang Ilcheul*	–	1,726	–	–	–	1,726
Xia Xinyue	–	4,001	720	6,119	111	10,951
	–	**29,193**	**1,308**	**17,944**	**283**	**48,728**
Non-executive directors:						
Eric, Ho Kwok Yin	666	–	–	264	–	930
Fu Jinqiu	1,748	–	–	–	–	1,748
	2,414	**–**	**–**	**264**	**–**	**2,678**

* Mr. Yang Ilcheul has tendered his resignation as executive director, with effect from 7 November 2018.

9. DIRECTORS' REMUNERATION (Continued)

(B) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS (Continued)

2017

	Fees	Salaries, allowances and benefits in kind	Performance – related bonuses	Equity-settled share option expenses	Pension scheme contributions	Total remuneration
	(HK$'000)					
Executive directors:						
Song Zhenghuan	–	3,917	–	350	–	4,267
Michael, Qu Nan	–	3,180	1,929	605	61	5,775
Martin Pos	–	7,536	5,425	605	–	13,566
Liu Tongyou**	–	3,152	2,192	605	–	5,949
Yang Ilcheul**	–	579	–	–	–	579
Xia Xinyue**	–	602	1,645	–	26	2,273
Wang Haiye***	78	1,908	–	605	11	2,602
Jan Rezab***	–	5,752	542	–	579	6,873
	78	**26,626**	**11,733**	**2,770**	**677**	**41,884**
Non-executive directors:						
Eric, Ho Kwok Yin	662	–	–	252	–	914
Fu Jinqiu**	286	–	–	–	–	286
	948	**–**	**–**	**252**	**–**	**1,200**

** The Board announced that Mr. Liu Tongyou has been appointed as an executive director, with effect from 21 February 2017. The Board announced that each of Mr. Yang Ilcheul and Mr. Xia Xinyue has been appointed as an executive director and Ms. Fu Jinqiu has been appointed as a non-executive director, with effect from 10 November 2017.

*** Mr. Jan Rezab and Mr. Wang Haiye has tendered their resignation as executive directors, both with effect from 10 November 2017.

NOTES TO FINANCIAL STATEMENTS

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10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2017: four), details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2017: one) non-director, highest paid employee for the year are as follows:

	2018	2017
	(HK$'000)	
Salaries, allowances and benefits in kind	3,423	3,236
Performance related bonus	–	464
Pension scheme contributions	110	86
	3,533	**3,786**

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2018	2017
HK$3,500,001 to HK$4,000,000	1	1

None of the directors or highest paid employees was paid by the Group as an inducement to join or upon joining the Group or as compensation for loss of office (2017: None).

11. INCOME TAX

The Company and its subsidiaries incorporated in the Cayman Islands and the British Virgin Islands, respectively, ("BVI") are exempted from taxation.

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

State income tax and federal income tax of the Group's subsidiary in the United States have been provided for at the rates of state income tax and federal income tax on the estimated assessable profits of the subsidiary during the year. The state income tax rates are 5% to 9.99% in the respective states in which the subsidiary operates, and the federal income tax rate was lowered to 21% effective from 1 January 2018, as a result of U.S. tax reform enacted in December 2017.

The Group's subsidiary registered in Japan is subject to income tax based on the taxable income at rates ranging from 10% to 25.5% on a progressive basis.

The Group's subsidiaries registered in Germany are subject to income tax based on the taxable income at the rate of 30%.

The Group's subsidiaries registered in Denmark are subject to income tax based on the taxable income at the rate of 24.5%.

The Group's subsidiary registered in the Czech Republic is subject to income tax based on the taxable income at the rate of 19%.

All of the Group's subsidiaries registered in the People's Republic of China (the "PRC"), which only have operations in Mainland China, are subject to PRC enterprise income tax ("EIT") on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws, at the rate of 25%.

Pursuant to relevant tax rules under the EIT Law and with the approval from the relevant tax authorities in the PRC, two of the Group's subsidiaries, Goodbaby Child Products Co., Ltd. ("GCPC") and EQO Testing and Certification Services Co., Ltd. ("EQTC") are qualified as "High and New Technology Enterprises" and are entitled to a preferential tax rate of 15% from 2017 to 2019 and 2016 to 2018 respectively.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

11. INCOME TAX (Continued)

The major components of income tax (credit)/expense of the Group are as follows:

	2018	2017
	(HK$'000)	
Current – income tax		
Charge for the year	87,065	51,809
Deferred income tax (note 30)	(46,373)	15,323
Income tax expense reported in the statement of profit or loss	40,692	67,132

A reconciliation of the tax expense applicable to profit before tax at the statutory rates to the tax expense at the effective tax rates for the year is as follows:

	2018	2017
	(HK$'000)	
Profit before tax	207,523	251,538
Expected income tax based on different rates applicable to profits in the countries covered	56,921	67,403
Effect of tax losses not recognised	4,651	–
Effect of changes in US tax rate on deferred tax asset balance	–	21,373
Temporary difference for which deferred tax assets have not been recognised	250	353
Recognition of deferred tax assets related to previously unrecognised deductible temporary differences and tax losses	(5,930)	–
Tax credit arising from additional deduction of R&D expenditures of PRC subsidiaries	(25,630)	(18,510)
Tax effect on non-taxable income	(7,819)	(11,222)
Tax effect on non-deductible expenses	18,249	7,735
Income tax expense	40,692	67,132

12. DIVIDENDS

	2018	2017
	(HK$'000)	
Final dividend proposed subsequent to the reporting period		
– HK$ nil (2017: HK$0.05) per ordinary share	–	83,313

The Board did not recommend the payment of any dividend for the year ended 31 December 2018 (2017: HK$0.05 per ordinary share).

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,667,513,287 in issue during the year (2017: 1,222,433,653).

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

13. EARNINGS PER SHARE (Continued)

The calculation of earnings per share is based on:

	2018	2017
	(HK$'000)	
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**163,764**	**179,350**

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,667,513,287	1,222,433,653
Effect of dilution – weighted average number of ordinary shares:		
Share options	2,273,145	127,700
Total	1,669,786,432	1,222,561,353

14. PROPERTY, PLANT AND EQUIPMENT

31 DECEMBER 2018

	Buildings and land	Plant and machinery	Motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
				(HK$'000)			
At 31 December 2017 and at 1 January 2018:							
Cost	586,471	972,755	16,282	416,196	128,956	95,161	2,215,821
Accumulated depreciation	(290,964)	(536,092)	(9,757)	(284,651)	(53,614)	–	(1,175,078)
Net carrying amount	**295,507**	**436,663**	**6,525**	**131,545**	**75,342**	**95,161**	**1,040,743**
At 1 January 2018, net of accumulated depreciation	295,507	436,663	6,525	131,545	75,342	95,161	1,040,743
Additions	37,811	117,069	8,815	54,408	54,237	103,740	376,080
Disposals	(40,472)	(17,297)	(273)	(1,849)	–	(56)	(59,947)
Depreciation provided during the year	(24,571)	(107,758)	(2,303)	(56,821)	(43,286)	–	(234,739)
Transfers	12,462	80,735	–	3,592	685	(97,474)	–
Exchange realignment	(11,953)	(18,959)	(461)	(4,895)	(4,337)	(3,746)	(44,351)
At 31 December 2018, net of accumulated depreciation and impairment	**268,784**	**490,453**	**12,303**	**125,980**	**82,641**	**97,625**	**1,077,786**
At 31 December 2018:							
Cost	567,552	1,091,414	24,250	445,748	173,478	97,625	2,400,067
Accumulated depreciation and impairment	(298,768)	(600,961)	(11,947)	(319,768)	(90,837)	–	(1,322,281)
Net carrying amount	**268,784**	**490,453**	**12,303**	**125,980**	**82,641**	**97,625**	**1,077,786**

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14. PROPERTY, PLANT AND EQUIPMENT (Continued)

31 DECEMBER 2017

	Buildings and land	Plant and machinery	Motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
				(HK$'000)			
At 31 December 2016 and at 1 January 2017:							
Cost	540,890	812,824	11,209	339,032	78,155	77,672	1,859,782
Accumulated depreciation	(246,777)	(475,246)	(8,028)	(226,355)	(45,182)	–	(1,001,588)
Net carrying amount	**294,113**	**337,578**	**3,181**	**112,677**	**32,973**	**77,672**	**858,194**
At 1 January 2017, net of accumulated depreciation	294,113	337,578	3,181	112,677	32,973	77,672	858,194
Additions	6,758	91,163	1,418	59,832	10,560	115,200	284,931
Acquisition of subsidiaries	–	1,035	2,563	7,468	39,265	–	50,331
Disposals	(3,103)	(10,182)	(69)	(12,831)	(2,483)	–	(28,668)
Depreciation provided during the year	(27,270)	(98,928)	(1,164)	(57,621)	(10,197)	–	(195,180)
Transfers	8,531	82,019	205	13,504	179	(104,438)	–
Exchange realignment	16,478	33,978	391	8,516	5,045	6,727	71,135
At 31 December 2017, net of accumulated depreciation and impairment	**295,507**	**436,663**	**6,525**	**131,545**	**75,342**	**95,161**	**1,040,743**
At 31 December 2017:							
Cost	586,471	972,755	16,282	416,196	128,956	95,161	2,215,821
Accumulated depreciation and impairment	(290,964)	(536,092)	(9,757)	(284,651)	(53,614)	–	(1,175,078)
Net carrying amount	**295,507**	**436,663**	**6,525**	**131,545**	**75,342**	**95,161**	**1,040,743**

15. PREPAID LAND LEASE PAYMENTS

	2018	2017
	(HK$'000)	
At beginning of year	55,740	53,895
Amortisation	(2,142)	(1,980)
Exchange realignment	(2,673)	3,825
At end of year	**50,925**	**55,740**

16. GOODWILL

	(HK$'000)
Cost and net carrying amount at 1 January 2017	811,662
Acquisition of subsidiaries	1,907,693
Exchange realignment	69,970
Cost and net carrying amount at 31 December 2017 and 1 January 2018	2,789,325
Exchange realignment	(107,217)
Cost and net carrying amount at 31 December 2018	**2,682,108**

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16. GOODWILL (Continued)

IMPAIRMENT TESTING OF CASH-GENERATING UNITS ("CGU")

Goodwill is allocated to the following CGU for impairment testing:

	2018	2017
	(HK$'000)	
Manufacture and export of stroller-related products unit	14,249	15,018
Evenflo unit	617,233	615,891
Columbus unit	200,222	208,431
NICAM unit	5,406	5,628
Oasis Dragon unit	1,844,998	1,944,357
	2,682,108	2,789,325

Trademarks with indefinite useful lives are allocated to the following cash-generating units ("CGU") for impairment testing:

	2018	2017
	(HK$'000)	
Evenflo unit	138,372	138,071
Columbus unit	353,714	368,216
Oasis Dragon unit	1,194,100	1,258,405
	1,686,186	1,764,692

16. GOODWILL (Continued)

MANUFACTURE AND EXPORT OF STROLLER-RELATED PRODUCTS UNIT

The recoverable amount of the manufacture and export of stroller-related products unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The growth rate used to extrapolate the cash flows of Manufacture and Export of Stroller-related Products unit beyond the five-year period is 3%. The pre-tax discount rate applied to the cash flow projections as at 31 December 2018 was 16.9% (2017: 16.3%).

EVENFLO UNIT

The recoverable amount of the Evenflo unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a seven-year period approved by senior management. The growth rate used to extrapolate the cash flows of Evenflo unit beyond the seven-year period is 3%. The pre-tax discount rate applied to the cash flow projections as at 31 December 2018 was 11.9% (2017: 12.5%).

COLUMBUS UNIT

The recoverable amount of the Columbus unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a seven-year period approved by senior management. The growth rate used to extrapolate the cash flows of Columbus unit beyond the seven-year period is 3%. The pre-tax discount rate applied to the cash flow projections as at 31 December 2018 was 14.8% (2017: 15.3%).

NICAM UNIT

The recoverable amount of the NICAM unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a nine-year period approved by senior management. The growth rate used to extrapolate the cash flows of NICAM unit beyond the nine-year period is 3%. The pre-tax discount rate applied to the cash flow projections as at 31 December 2018 was 14.6% (2017: 14.9%).

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

16. GOODWILL (Continued)

OASIS DRAGON UNIT

The recoverable amount of the Oasis Dragon unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a four-year period approved by senior management. The growth rate used to extrapolate the cash flows of Oasis Dragon unit beyond the four-year period is 3%. The pre-tax discount rate applied to the cash flow projections as at 31 December 2018 was 14.7% (2017: 16.4%).

KEY ASSUMPTIONS USED IN THE VALUE IN USE CALCULATION

Assumptions were used in the value in use calculation of the above cash-generating units for each reporting date. The following describes each key assumption on which senior management has based its cash flow projections to undertake impairment testing of goodwill:

"Budgeted gross margins"	—	The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.
"Discount rate"	—	The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to key assumptions are consistent with external information sources.

17. OTHER INTANGIBLE ASSETS

31 DECEMBER 2018

	Trademarks	Computer software	Non-compete agreement	Customer relationship	Patents	Total
	(HK$'000)					
At 31 December 2017 and at 1 January 2018:						
Cost	1,808,445	45,645	7,673	565,177	71,450	2,498,390
Accumulated amortisation	(29,919)	(30,622)	(5,538)	(41,235)	(19,877)	(127,191)
Net carrying amount	**1,778,526**	**15,023**	**2,135**	**523,942**	**51,573**	**2,371,199**
At 1 January 2018, net of accumulated amortisation	1,778,526	15,023	2,135	523,942	51,573	2,371,199
Additions	1,166	15,402	–	7,139	1,103	24,810
Disposals	–	(49)	–	–	–	(49)
Amortisation provided during the year	(2,061)	(7,350)	(1,633)	(36,908)	(5,720)	(53,672)
Exchange realignment	(79,400)	(1,529)	(40)	(21,769)	(1,511)	(104,249)
At 31 December 2018, net of accumulated amortisation	**1,698,231**	**21,497**	**462**	**472,404**	**45,445**	**2,238,039**
At 31 December 2018:						
Cost	1,727,428	56,028	7,360	548,193	71,150	2,410,159
Accumulated amortisation	(29,197)	(34,531)	(6,898)	(75,789)	(25,705)	(172,120)
Net carrying amount	**1,698,231**	**21,497**	**462**	**472,404**	**45,445**	**2,238,039**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

17. OTHER INTANGIBLE ASSETS (Continued)

31 DECEMBER 2017

	Trademarks	Computer software	Non-compete agreement	Customer relationship	Patents	Total
	(HK$'000)					
At 31 December 2016 and at 1 January 2017:						
Cost	497,014	36,791	5,902	140,871	58,328	738,906
Accumulated amortisation	(25,575)	(18,814)	(3,443)	(22,139)	(13,069)	(83,040)
Net carrying amount	**471,439**	**17,977**	**2,459**	**118,732**	**45,259**	**655,866**
At 1 January 2017, net of accumulated amortisation	471,439	17,977	2,459	118,732	45,259	655,866
Additions	2,368	2,274	–	–	6,953	11,595
Acquisition of subsidiaries	1,231,637	665	733	405,453	–	1,638,488
Amortisation provided during the year	(2,312)	(9,849)	(1,431)	(12,953)	(5,266)	(31,811)
Exchange realignment	75,394	3,956	374	12,710	4,627	97,061
At 31 December 2017, net of accumulated amortisation	**1,778,526**	**15,023**	**2,135**	**523,942**	**51,573**	**2,371,199**
At 31 December 2017:						
Cost	1,808,445	45,645	7,673	565,177	71,450	2,498,390
Accumulated amortisation	(29,919)	(30,622)	(5,538)	(41,235)	(19,877)	(127,191)
Net carrying amount	**1,778,526**	**15,023**	**2,135**	**523,942**	**51,573**	**2,371,199**

18. OTHER LONG-TERM ASSETS

Other long-term assets represent call options over non-controlling interests of HK$4,287,000 (2017: HK$4,160,000) arising from the acquisition of subsidiaries and a deposit for insurance over one year of HK$3,712,000 (2017: HK$3,064,000).

19. INVENTORIES

	2018	2017
	(HK$'000)	
Raw materials	377,660	370,746
Work in progress	59,007	77,049
Finished goods	1,507,310	1,413,481
	1,943,977	1,861,276

20. TRADE AND NOTES RECEIVABLES

	2018	2017
	(HK$'000)	
Trade receivables	1,130,128	1,209,152
Notes receivable	4,443	6,280
	1,134,571	1,215,432
Impairment of the trade receivables	(37,531)	(43,694)
	1,097,040	1,171,738

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is up to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

20. TRADE AND NOTES RECEIVABLES (Continued)

The Group's notes receivables were all aged within six months and were neither past due nor impaired.

An aging analysis of the trade receivables of the Group, based on the invoice date net of provision, is as follows:

	2018	2017
	(HK$'000)	
Within 3 months	1,025,437	1,020,758
3 to 6 months	41,173	138,752
6 months to 1 year	4,487	5,614
Over 1 year	21,500	334
	1,092,597	1,165,458

The movements in the loss allowance for impairment of trade receivables are as follows:

	2018	2017
	(HK$'000)	
At beginning of year	43,694	8,960
Impairment losses, net	22,515	34,286
Amounts written off as uncollectible	(29,366)	(478)
Exchange realignment	688	926
At end of year	**37,531**	**43,694**

20. TRADE AND NOTES RECEIVABLES (Continued)

IMPAIRMENT UNDER IFRS 9 FOR THE YEAR ENDED 31 DECEMBER 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in both interest and/or principal payments and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017
	(HK$'000)
Neither past due nor impaired	906,697
Less than 1 month past due	145,481
1 to 2 months past due	48,483
2 to 3 months past due	44,134
Over 3 months and within 1 year past due	20,663
At end of year	**1,165,458**

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors believe that no impairment allowance is necessary under IAS 39 in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

21. PREPAYMENTS AND OTHER RECEIVABLES

	2018	2017
	(HK$'000)	
Prepayments	115,451	104,930
Other receivables	303,536	232,285
	418,987	337,215

The above balances are unsecured, interest-free and have no fixed terms of repayment.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

22. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
	(HK$'000)	
Unlisted investments, at fair value	**–**	**138,088**

The above unlisted investments as at 31 December 2017 consist of investments in wealth investment products which are designated as available-for-sale financial assets and have maturity within three months and coupon rates ranging from 2.2% to 3.5% per annum. They are mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

All wealth investment products subsequently matured in January 2018 with principals and interest fully received.

23. CASH AND CASH EQUIVALENTS

	2018	2017
	(HK$'000)	
Cash and bank balances	926,952	952,153
Time deposits	3,447	84,054
Pledged time deposits	–	15,370
	930,399	1,051,577
Less: Time deposits	3,447	84,054
Pledged time deposits:		
– Pledged for import bill advance	–	15,370
Cash and cash equivalents	**926,952**	**952,153**
Denominated in US$	242,526	350,664
Denominated in RMB	477,175	440,903
Denominated in EUR	169,188	158,873
Denominated in HK$	4,569	21,042
Denominated in other currencies	36,941	80,095
Cash and bank balances	**930,399**	**1,051,577**

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO FINANCIAL STATEMENTS

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24. DERIVATIVE FINANCIAL INSTRUMENTS

	2018	
	Assets	Liabilities
	(HK$'000)	
Forward currency contracts		
– designated as hedging instruments	2,987	1,058
	2,987	1,058

	2017	
	Assets	Liabilities
	(HK$'000)	
Forward currency contracts		
– designated as hedging instruments	18,816	4,408
– not designated as hedging instruments	3,434	–
	22,250	4,408

CASH FLOW HEDGE UNDER IFRS 9 – FOREIGN CURRENCY RISK

Forward currency contracts are designated as hedging instruments in respect of forecasted routine intragroup sales in foreign currencies. The forward currency contract balances vary with the levels of expected foreign currency sales and changes in foreign exchange forward rates.

Hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the forecasted sales and purchases and the hedging instruments
- Different interest rate curves applied to discount the hedged items and hedging instruments
- The counterparties' credit risks differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amounts of cash flows of hedged items and hedging instruments

24. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

CASH FLOW HEDGE UNDER IFRS 9 – FOREIGN CURRENCY RISK (Continued)

The Group holds the following foreign exchange forward and swap contracts:

	Maturity		
	Less than 3 months	3 to 6 months	Total
As at 31 December 2018			
Foreign currency forward contracts (highly probable forecasted sales)			
Notional amounts (HK$'000)	15,668	–	15,668
Average forward rate (US$/RMB)	6.7081	–	
Foreign currency forward contracts (highly probable forecasted sales)			
Notional amounts (HK$'000)	99,630	–	99,630
Average forward rate (EUR/RMB)	8.2162	–	
Foreign currency forward contracts (highly probable forecasted sales)			
Notional amounts (HK$'000)	8,923	–	8,923
Average forward rate (US$/EUR)	0.8608	–	
Foreign currency forward contracts (highly probable forecasted sales)			
Notional amounts (HK$'000)	11,376	2,808	14,184
Average forward rate (JPY/EUR)	0.0076	0.0076	

NOTES TO FINANCIAL STATEMENTS

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24. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

CASH FLOW HEDGE UNDER IFRS 9 – FOREIGN CURRENCY RISK (Continued)

The impacts of the hedging instruments on the statement of financial position are as follows:

	Notional amounts	Carrying amounts	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year
	(HK$'000)			(HK$'000)
As at 31 December 2018				
Foreign currency forward contracts	99,630	2,987	Derivative financial instruments (assets)	2,987
Foreign currency forward contracts	38,775	(1,058)	Derivative financial instruments (liabilities)	(1,058)

The impacts of the hedged items on the statement of financial position are as follows:

	Change in fair value used for measuring hedge ineffectiveness for the year	Hedging reserve
	(HK$'000)	
As at 31 December 2018		
Highly probable forecast sales	3,535	(1,606)

The effects of the cash flow hedge on the statement of profit or loss and the statement of comprehensive income are as follows:

	Total hedging gains/(losses) recognised in other comprehensive income			Line item in the statement of profit or loss	Amounts reclassified from other comprehensive income to profit or loss			Line item (gross amount) in the statement of profit or loss
	Gross amounts	Tax effects	Total		Gross amounts	Tax effects	Total	
	(HK$'000)				(HK$'000)			
As at 31 December 2018								
Highly probable forecast sales	(7,157)	2,553	(4,604)	Other income and gains	(10,046)	584	(9,462)	Revenue

25. TRADE AND BILLS PAYABLES

An aging analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018	2017
	(HK$'000)	
Within 3 months	1,269,572	1,162,294
3 to 12 months	160,124	144,549
1 to 2 years	8,301	5,428
2 to 3 years	1,265	108
Over 3 years	112	194
	1,439,374	**1,312,573**

The trade and bills payables are non-interest-bearing and normally settled on terms of 60 to 90 days.

26. OTHER PAYABLES AND ACCRUALS

		2018	2017
		(HK$'000)	
Other payables	(a)	185,708	190,419
Contract liabilities	(b)	108,235	149,051
Accruals		466,623	565,526
		760,566	**904,996**

(a) Other payables are non-interest-bearing and repayable on demand.

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26. OTHER PAYABLES AND ACCRUALS (Continued)

(b) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018	1 January 2018
	(HK$'000)	
Short-term advances from customers		
Sale of goods	108,235	149,009
Rendering of testing services	–	42
	108,235	**149,051**

Contract liabilities include short-term advances received to deliver goods and render testing services. The increase in contract liabilities in 2018 was mainly due to the increase in short-term advances from customers in relation to the sale of goods.

27. PROVISION

	Product warranties and liabilities
	(HK$'000)
Balance at 1 January 2017	127,636
Additional provision	31,205
Amounts utilised	(67,544)
Exchange realignment	2,620
Balance at 31 December 2017 and 1 January 2018	93,917
Additional provision	37,678
Amounts utilised	(48,492)
Exchange realignment	(673)
Balance at 31 December 2018	82,430
Portion classified as current liabilities	37,446
Non-current portion	44,984

The Group provides warranties to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. As at 31 December 2018, the amount of product warranties was HK$10,028,000.

27. PROVISION (Continued)

In addition, the Group estimates future cash outflows in relation to the indemnity provided to its customers for damages or injuries caused in connection with the use of the Group's sold products. The amount of cash outflows is estimated based upon an annual review by the management of the Group with patterns of past experience of how the Group discharged its obligation. As at 31 December 2018, the amount of product liabilities was HK$72,402,000.

28. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

		As at 31 December 2018		As at 31 December 2017	
		Maturity	HK$'000	Maturity	HK$'000
Current					
Bank overdrafts – secured	Note (a)	2019	155,693	2018	158,724
Current portion of long-term bank loans – secured	Note (b)	2019	223,654	2018	371,834
Bank borrowings – secured	Note (b)	2019	450,458	2018	562,687
Promissory note	Note (c)	2019	1,252	2018	625
Bank borrowings – unsecured		2019	56,405	2018	247,793
			887,462		1,341,663
Non-current					
Bank borrowings – secured	Note (b)	2020-2022	1,888,475	2019-2021	1,393,260
Promissory note	Note (c)	2021	1,253	2021	1,876
			1,889,728		1,395,136
Total			**2,777,190**		**2,736,799**

Note (a): The bank overdraft facilities amounted to HK$236,415,000, of which HK$155,693,000 had been utilised as at the end of the reporting period and was guaranteed by the Company. The bank overdraft facilities are revolving facilities with no termination date.

Note (b): Certain of the Group's bank loans are secured by:

(i) the pledge of shares of certain Group's subsidiaries;

(ii) a standby letter of credit from the Bank of China Suzhou branch issued by a subsidiary of the Group; and

(iii) the guarantee from the Company.

Note (c): The promissory note was issued by the US government authority.

Note (d): The effective interest rates of the bank loans and other borrowings range from 0.60% to 6% (2017: 0.65% to 6%).

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28. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (Continued)

	Group 2018	Group 2017
	(HK$'000)	(HK$'000)
Analysed into:		
Bank loans repayable:		
Within one year	887,462	1,341,663
In the second year	489,818	310,243
In the third to fifth years, inclusive	1,399,910	1,084,893
	2,777,190	2,736,799

29. DEFINED BENEFIT PLAN LIABILITIES

(1) ERA PLAN

The Group operates a defined benefit plan named the Evenflo Retirement Account plan ("ERA Plan") in the United States. This non-contributory ERA Plan was frozen with effect from 31 August 2002 and no further benefit credits were earned after 31 July 2002. No new employees have been added to the ERA Plan since this date. For benefits earned prior to this date, the plan provides employees with pension benefits that are either based on age and compensation or are based on stated amounts for each year of service.

The ERA Plan is a final salary plan, which requires contributions to be made to a separately administered fund. The plan has the legal form of a foundation and it is administrated by independent trustees with the assets held separately from those of the Group. The trustees are responsible for the determination of the investment strategy of the plan.

The trustees review the level of funding in the plan by the end of each reporting period. Such a review includes the asset-liability matching strategy and investment risk management policy. This includes employing the use of annuities and longevity swaps to manage the risks. The trustees decide the contribution based on the results of the annual review. The investment portfolio targets a mix of 60-65% in equity and property and 35-40% in debt instruments.

The plan is exposed to interest rate risk, the risk of changes in the life expectancy for pensioners and equity market risk.

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligations were carried out at 31 December 2018 by an independent actuary, a member of the Society of Actuaries in the United States, using the projected unit credit actuarial valuation method.

29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(1) ERA PLAN (Continued)

The principal actuarial assumption used as at the end of the reporting period is as follows:

	2018	2017
Discount rate (%)	4.00%	3.35%

The fair value of plan assets was HK$58,935,000 (2017: HK$101,401,000) and the value of these assets represented 97% of the benefits that had accrued to qualifying employees. The deficiency of HK$1,935,000 is expected to be cleared over the remaining duration of the defined benefit obligations of 8.1 years.

A quantitative sensitivity analysis for the significant assumption as at the end of the reporting period is shown below:

	Increase in rate	Increase/ (decrease) in defined benefit obligations	Decrease in rate	Increase/ (decrease) in defined benefit obligations
	%	(HK$'000)	%	(HK$'000)
2018				
Discount rate	0.5	(2,289)	0.5	2,470
2017				
Discount rate	0.5	(4,503)	0.5	4,901

The sensitivity analysis above has been determined based on a method that extrapolates the impact on defined benefit obligations as a result of reasonable changes in the key assumption occurring at the end of the reporting period.

The total expenses recognised in the consolidated statement of profit or loss in respect of the plan are as follows:

	2018	2017
	(HK$'000)	
Interest cost	149	247
Past service cost	–	61
Net benefit expenses	149	308
Administrative expense relating to plan assets	2,595	2,424

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29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(1) ERA PLAN (Continued)

The movements in the present value of the defined benefit obligations are as follows:

	2018	2017
	(HK$'000)	
Assets at 1 January	(105,594)	(105,837)
Interest cost	(2,799)	(3,838)
Remeasurement effects recognised in OCI	6,342	(1,477)
Benefit paid	5,692	6,476
Past service cost	–	(61)
Settlements	35,742	–
Exchange differences on a foreign plan	(253)	(857)
Liabilities at 31 December	**(60,870)**	**(105,594)**

29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(1) ERA PLAN (Continued)

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2018

		Cost (charged)/credited to profit or loss						Remeasurement gains/(losses) in other comprehensive income						
	1 January 2018	Past service cost	Administrative expense	Net interest expense/ (impairment)	Sub-total included in profit or loss	Benefit paid	Settlements	Return on plan assets (excluding amounts included in net interest expense)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Sub-total included in other comprehensive income	Exchange rate difference	31 December 2018
		(HK$'000)												
Defined benefit obligations	(105,594)	–	–	(2,799)	(2,799)	5,692	35,742	–	243	3,246	2,853	6,342	(253)	(60,870)
Fair value of plan assets	101,401	–	(2,595)	2,650	55	(5,692)	(35,397)	(1,670)	–	–	–	(1,670)	238	58,935
Benefits liabilities	**(4,193)**	**–**	**(2,595)**	**(149)**	**(2,744)**	**–**	**345**	**(1,670)**	**243**	**3,246**	**2,853**	**4,672**	**(15)**	**(1,935)**

2017

		Cost (charged)/credited to profit or loss					Remeasurement gains/(losses) in other comprehensive income						
	1 January 2017	Past service cost	Administrative expenses	Net (interest expense)/ investment income	Sub-total included in profit or loss	Benefit paid	Return on plan assets (excluding amounts included in net interest expense)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Sub-total included in other comprehensive income	Exchange differences	31 December 2017
	(HK$'000)												
Defined benefit obligations	(105,837)	(61)	–	(3,838)	(3,899)	6,476	–	1,036	(3,620)	1,107	(1,477)	(857)	(105,594)
Fair value of plan assets	100,836	–	(2,425)	3,592	1,167	(6,476)	5,055	–	–	–	5,055	819	101,401
Benefits liabilities	**(5,001)**	**(61)**	**(2,425)**	**(246)**	**(2,732)**	**–**	**5,055**	**1,036**	**(3,620)**	**1,107**	**3,578**	**(38)**	**(4,193)**

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29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(1) ERA PLAN (Continued)

The major categories of the fair value of the total plan assets are as follows:

	2018	2017
	(HK$'000)	
Debt instruments	–	96,273
Cash and cash equivalents	58,935	5,128

The average duration of the defined benefit obligations at the end of the reporting period was 8.1 years.

In March 2019, the Group terminated ERA Plan and settled the remaining liabilities. Net pension termination expense was negligible. Going forward, the Company will no longer have ERA plan obligations and thus no periodic pension expense in future periods.

(2) POST-RETIREMENT BENEFIT OBLIGATIONS

Post-retirement healthcare and life insurance benefits are provided for U.S. retired employees and their dependents. Substantially all of the Group's U.S. employees may become eligible for those benefits if they reach the normal retirement age while working for the Company. The Group does not fund retiree healthcare benefits in advance and has the right to modify these plans in the future. There have been no changes in the plan provisions in 2018.

Key assumptions used in the accounting for post¬retirement benefits are summarised below.

	2018	2017
Discount rate (%)	3.95	3.30
Current healthcare cost trend rate (%)	6.5	6.8
Ultimate healthcare cost trend rate (%)	5.0	5.0

29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(2) POST-RETIREMENT BENEFIT OBLIGATIONS (Continued)

A quantitative sensitivity analysis for significant assumptions as at the end of the reporting period is shown below:

	Increase in rate	Increase/ (decrease) in defined benefit obligations	Decrease in rate	Increase/ (decrease) in defined benefit obligations
	%	(HK$'000)	%	(HK$'000)
2018				
Discount rate	0.5	(219)	0.5	235
Healthcare trend rate	1.0	157	1.0	(180)
2017				
Discount rate	0.5	(281)	0.5	304
Healthcare trend rate	1.0	234	1.0	281

The sensitivity analysis above has been determined based on a method that extrapolates the impact on defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The total expenses recognised in the consolidated statement of profit or loss in respect of the plan are as follows:

	2018	2017
	(HK$'000)	
Interest cost	227	282
Net benefit cost	**227**	**282**
Recognised in administrative expenses	**227**	**282**

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29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(2) POST-RETIREMENT BENEFIT OBLIGATIONS (Continued)

The movements in the present value of the defined benefit obligations are as follows:

	2018	2017
	(HK$'000)	
At 1 January	(7,247)	(8,104)
Interest cost	(227)	(282)
Remeasurement effects recognised in OCI	1,200	823
Benefits paid directly by the Group	251	380
Exchange differences on a foreign plan	(28)	(64)
At 31 December	**(6,051)**	**(7,247)**

29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(2) POST-RETIREMENT BENEFIT OBLIGATIONS (Continued)

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2018

	1 January 2018	Cost charged to profit or loss		Benefit paid	Remeasurement gains/(losses) in other comprehensive income				Exchange differences	31 December 2018
		Net interest expense	Sub-total included in profit or loss		Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Sub-total included in other comprehensive income		
	(HK$'000)									
Benefit obligations	(7,247)	(227)	(227)	251	8	376	816	1,200	(28)	(6,051)
Benefit liabilities	**(7,247)**	**(227)**	**(227)**	**251**	**8**	**376**	**816**	**1,200**	**(28)**	**(6,051)**

2017

	1 January 2017	Cost charged to profit or loss		Benefit paid	Remeasurement gains/(losses) in other comprehensive income				Exchange differences	31 December 2017
		Net interest expense	Sub-total included in profit or loss		Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Sub-total included in other comprehensive income		
	(HK$'000)									
Benefit obligations	(8,104)	(282)	(282)	380	65	(78)	836	823	(64)	(7,247)
Benefit liabilities	**(8,104)**	**(282)**	**(282)**	**380**	**65**	**(78)**	**836**	**823**	**(64)**	**(7,247)**

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30. DEFERRED TAX

The movements in deferred tax assets and liabilities of the Group during the year are as follows:

DEFERRED TAX ASSETS:

	Provision for impairment of receivables	Write-down of inventories	Provision	Accruals	Losses available for offsetting against future taxable profits	Depreciation	Derivative financial instruments	Unrealised profit	Provision for impairment of property, plant and equipment	Insurance deposit	Pension and post-retirement benefits	Foreign tax credit	Others	Total
	(HK$'000)													
As at 1 January 2017	3,187	13,439	8,984	50,034	65,597	3,495	–	47,595	974	–	6,674	15,919	5,837	221,735
Credited/(charged) to profit or loss (note 11)	4,049	(2,763)	(7,445)	(21,372)	(33,693)	(920)	–	14,739	(1,006)	–	(2,443)	(6,032)	(2,624)	(59,510)
Credited to other comprehensive income	–	–	–	–	–	–	–	–	–	–	(1,457)	–	–	(1,457)
Addition from acquisition	–	5,226	–	15,275	–	–	–	–	–	–	–	–	–	20,501
Exchange realignment	(336)	854	100	747	2,661	972	–	876	32	–	32	111	(964)	5,085
As at 31 December 2017 and 1 January 2018	6,900	16,756	1,639	44,684	34,565	3,547	–	63,210	–	–	2,806	9,998	2,249	186,354
Credited/(charged) to profit or loss (note 11)	(3,733)	(1,564)	(1,355)	(9,632)	16,277	686	–	16,677	–	–	572	–	612	18,540
Credited to other comprehensive income	–	–	–	–	–	–	–	–	–	–	(1,435)	–	–	(1,435)
Exchange realignment	(183)	(603)	(34)	(707)	51	48	–	(1,065)	–	–	8	22	(176)	(2,639)
As at 31 December 2018	**2,984**	**14,589**	**250**	**34,345**	**50,893**	**4,281**	**–**	**78,822**	**–**	**–**	**1,951**	**10,020**	**2,685**	**200,820**

The Group has tax losses arising in the Germany of HK$5,489,000 (2017: HK$5,744,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in Hong Kong of HK$22,697,000 (2017: Nil) that will expire in five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

30. DEFERRED TAX (Continued)

DEFERRED TAX LIABILITIES:

	Withholding tax on undistributed profits	Derivative financial instruments	Inventory valuation differences	Depreciation	Fair value adjustments arising from put/call options	Prepaid expenses	Receivable valuation differences	Other intangible assets	Others	Total
	(HK$'000)									
At 1 January 2017	(16,823)	–	(2,355)	(11,298)	(2,558)	–	–	(203,720)	–	(236,754)
Addition from acquisition	–	–	(4,798)	–	–	–	–	(409,272)	–	(414,070)
(Charged)/credited to profit or loss (note 11)	–	(447)	4,939	6,546	(195)	(1,174)	(706)	37,188	(1,964)	44,187
Credited to other comprehensive income	–	(2,899)	–	–	–	–	–	–	–	(2,899)
Exchange realignment	(1,264)	(281)	(352)	(84)	(385)	(73)	(44)	(27,197)	(6)	(29,686)
At 31 December 2017 and 1 January 2018	(18,087)	(3,627)	(2,566)	(4,836)	(3,138)	(1,247)	(750)	(603,001)	(1,970)	(639,222)
(Charged)/credited to profit or loss (note 11)	–	(109)	(1,214)	(8,383)	(2,089)	1,214	358	38,385	(329)	27,833
Credited to other comprehensive income	–	3,137	–	–	–	–	–	–	–	3,137
Exchange realignment	924	215	150	(2,799)	186	33	19	3,980	(4)	2,704
At 31 December 2018	**(17,163)**	**(384)**	**(3,630)**	**(16,018)**	**(5,041)**	**–**	**(373)**	**(560,636)**	**(2,303)**	**(605,548)**

Pursuant to the EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings generated after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. The applicable tax rate of the Group is 10%.

Pursuant to the Board resolutions of PCPC, GCPC and its subsidiaries, all of which are directly or indirectly controlled by GBHK, profits earned by the aforesaid subsidiaries in 2018 will not be appropriated to GBHK in 2018 and onwards. Hence, the deferred tax liability arising from the withholding tax on profits generated by the aforesaid companies in the current year is not applicable as of 31 December 2018.

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30. DEFERRED TAX (Continued)

At 31 December 2018, other than the amount recognised in the consolidated financial statements, deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such remaining earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised was HK$1,469,011,000 at 31 December 2018 (2017: HK$1,148,780,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

For presentation purposes, certain deferred tax assets and liabilities within the same tax jurisdiction have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2018	2017
	(HK$'000)	
Reflected in the consolidated statement of financial position:		
– Deferred tax assets	151,589	112,980
– Deferred tax liabilities	(556,317)	(565,848)

Deferred tax assets have not been recognised in respect of the following items:

	2018	2017
	(HK$'000)	
Tax losses	28,186	5,744
Others	–	846
	28,186	**6,590**

The above tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

31. OTHER LIABILITIES

Included in other liabilities are put options over non-controlling interests of HK$10,951,000 (2017: HK$10,460,000) arising from the acquisition of CBDK and CBJP and employee worker injury compensation of HK3,002,000 (2017: HK$3,629,000) of overseas subsidiaries.

32. SHARE CAPITAL

	As at 31 December 2018	As at 31 December 2017
	(HK$'000)	
Issued and fully paid:		
1,668,023,000 (2017: 1,666,251,000) ordinary shares	**16,680**	**16,662**

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital	Share premium	Total
	('000)	(HK$'000)	(HK$'000)	(HK$'000)
At 1 January 2017	1,115,129	11,151	1,171,846	1,182,997
Issuance of shares	536,100	5,361	2,228,723	2,234,084
Share options exercised	15,022	150	50,790	50,940
Dividend	–	–	(55,885)	(55,885)
At 31 December 2017 and 1 January 2018	1,666,251	16,662	3,395,474	3,412,136
Share options exercised (note (a))	1,772	18	8,328	8,346
Dividend	–	–	(83,401)	(83,401)
At 31 December 2018	**1,668,023**	**16,680**	**3,320,401**	**3,337,081**

Note:

(a) The subscription rights attaching to 6,000 and 1,766,000 share options were exercised at the subscription prices of HK$2.12 and HK$3.58 per share (note 33), resulting in the issue of 1,772,000 shares for a total cash consideration, before expenses, of HK$6,335,000. An amount of HK$2,010,739 was transferred from the share option reserve to share capital upon the exercise of the share options.

SHARE OPTIONS

Details of the Company's share option scheme and the share options issued under the scheme are included in note 33 to the financial statements.

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33. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purposes of motivating the eligible participants to optimise their performance efficiency for the benefit of the Group; and attracting and retaining or otherwise maintaining on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group. Eligible participants of the Scheme include full-time or part-time employees, executives or officers of the Company or any of its subsidiaries, any directors (including non-executive and independent non-executive directors) of the Company or any of its subsidiaries and advisers, consultants, suppliers, customers, agents and such other persons who in the sole opinion of the board will contribute or have contributed to the Company or any of its subsidiaries as described in the Scheme. The Scheme has become effective on 5 November 2010 and, unless otherwise cancelled or amended, remains in force for 10 years from that date.

The maximum number of share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at 11 May 2018. The maximum number of shares issuable under share options to each eligible participant under the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue as at the date on which the share options are granted to the relevant eligible participants. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue on the date of such grant or with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period determined by the directors and ends on a date which shall not be later than ten years from the date upon which the share options are deemed to be granted and accepted.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares on the date of offer of the share options; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

33. SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the Scheme during the year:

	Weighted average exercise price	Number of options
	HK$ per share	'000
At 1 January 2017	3.420	74,960
Granted during the year	3.880	4,500
Forfeited during the year	3.708	(13,488)
Exercised during the year	2.466	(15,022)
At 31 December 2017 and 1 January 2018	3.665	50,950
Granted during the year	4.600	112,300
Forfeited during the year	4.396	(28,447)
Exercised during the year	3.575	(1,772)
At 31 December 2018	**4.299**	**133,031**

The weighted average share price at the date of exercise for share options exercised during the year was HK$5.10 per share (2017: HK$3.81).

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33. SHARE OPTION SCHEME (Continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2018

Number of options	Exercise price	Exercise period
'000	HK$ per share	
7,594	3.58	29 September 2017 to 28 September 2024
9,260	3.58	29 September 2018 to 28 September 2024
8,560	3.58	29 September 2019 to 28 September 2024
5,039	3.75	7 October 2018 to 6 October 2025
5,039	3.75	7 October 2019 to 6 October 2025
5,039	3.75	7 October 2020 to 6 October 2025
1,000	3.88	28 August 2020 to 27 August 2027
1,000	3.88	28 August 2021 to 27 August 2027
1,000	3.88	28 August 2022 to 27 August 2027
15,760	4.54	27 September 2020 to 27 March 2028
23,640	4.54	27 September 2021 to 27 March 2028
39,400	4.54	27 September 2022 to 27 March 2028
2,140	5.122	28 May 2021 to 27 May 2028
3,210	5.122	28 May 2022 to 27 May 2028
5,350	5.122	28 May 2023 to 27 May 2028
133,031		

33. SHARE OPTION SCHEME (Continued)

2017

Number of options	Exercise price	Exercise period
'000	HK$ per share	
20	2.12	3 January 2013 to 2 January 2018
9,360	3.58	29 September 2017 to 28 September 2024
10,060	3.58	29 September 2018 to 28 September 2024
9,360	3.58	29 September 2019 to 28 September 2024
5,883	3.75	7 October 2018 to 6 October 2025
5,883	3.75	7 October 2019 to 6 October 2025
5,884	3.75	7 October 2020 to 6 October 2025
1,500	3.88	28 August 2020 to 27 August 2027
1,500	3.88	28 August 2021 to 27 August 2027
1,500	3.88	28 August 2022 to 27 August 2027
50,950		

The Group recognised a share option expense of HK$34,239,000 (2017: HK$8,910,000) for the year ended 31 December 2018.

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33. SHARE OPTION SCHEME (Continued)

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	Share options granted on 27 March 2018	Share options granted on 28 May 2018
Dividend yield (%)	1.50	1.50
Spot stock price (HK$ per share)	4.54	4.78
Historical volatility (%)	37.90	37.90
Risk-free interest rate (%)	2.03	2.25
Expected life of options (year)	10	10

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 1,772,000 share options exercised during the year resulted in the issue of 1,772,000 ordinary shares of the Company and new share capital of HK$17,720 and share premium and share option reserve of HK$6,317,280 (before issue expenses), as further detailed in note 32 to the financial statements.

At the end of the reporting period, the Company had 133,031,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 133,031,000 additional ordinary shares of the Company and additional share capital of HK$1,330,310, and share premium of HK$570,569,959 (before issue expenses).

At the date of approval of these financial statements, the Company had 132,130,667 share options outstanding under the Scheme, which represented approximately 7.92% of the Company's shares in issue as at that date.

34. RESERVES

The changes in the reserves of the Group during the year have been disclosed in the consolidated statement of changes in equity of the Group.

STATUTORY RESERVE FUNDS

Statutory reserve funds comprise:

(i) Reserve fund

PRC laws and regulations require wholly-owned-by-foreign enterprises ("WOFE") to provide for the reserve fund by appropriating a part of the net profit (based on the entity's statutory accounts) before dividend distribution. Each subsidiary being WOFE is required to appropriate at least 10% of its net profit after tax to the reserve fund until the balance of this fund has reached 50% of its registered capital. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital.

(ii) Enterprise expansion fund

In accordance with relevant regulations and the articles of association of the Group's PRC subsidiaries, appropriations from net profit should be made to the enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions to the investors for the subsidiaries registered in the PRC as foreign invested companies. The percentages to be appropriated to the enterprise expansion fund are determined by the boards of directors of the subsidiaries.

(iii) Statutory surplus reserve

In accordance with the PRC Company Law and the articles of association of the Group's PRC subsidiaries, a subsidiary registered in the PRC as a domestic company is required to appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve. When the balance of this reserve fund reaches 50% of the entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after these usages.

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34. RESERVES (Continued)

MERGER RESERVE

As at 31 December 2018, the merger reserve represents the following:

(i) In 2001, the Group acquired GCPC from GCPC's then shareholders through the issue of the Company's shares to GCPC's then shareholders. The difference between the nominal value of the Company's share of the paid-up capital of GCPC and the par value of the Company's shares issued amounting to HK$108,281,000 was recognised in the merger reserve account.

(ii) In 2007, Geoby Electric Vehicle Co., Ltd. ("GPCL") was established to take over certain operations from the Group and the net asset value of the discontinued operation over the consideration received amounting to HK$1,362,000 was recognised as a deemed distribution in the merger reserve account.

(iii) The Group acquired the wooden products and E-car businesses through acquiring a 100% equity interest in PCPC in June 2010 and this acquisition was accounted for using the pooling of interests method. Prior to the establishment of PCPC on 5 November 2008, the wooden products and E-car businesses were carried out by a fellow subsidiary, GPCL. Upon establishment, PCPC acquired all the assets and liabilities related to the wooden products and E-car businesses from GPCL at their respective book values and continued the wooden products and E-car businesses afterwards. Accordingly, the retained earnings of HK$11,357,000 in respect of the wooden products and E-car businesses generated prior to the establishment of PCPC were capitalised in the merger reserve account in 2008.

(iv) In 2010, the Group disposed of its equity interests in Goodbaby (China) Commercial Co., Ltd. ("GCCL"), Shanghai Goodbaby Fashion Co., Ltd. ("SHFS"), Shanghai Online Service Co., Ltd. ("SGOL"), Ricky Bright Limited ("RCBL"), Mothercare Goodbaby China Retail Limited ("MGCR") and Mothercare-Goodbaby Retailing Co., Ltd. ("MGRL") to G-Baby Holdings Limited ("GBHL") for a consideration of HK$287,936,000 in aggregate. The consideration over the net asset value of the discontinued operations amounting to HK$35,699,000 was recognised as a deemed contribution in the merger reserve account.

HEDGING RESERVE

The hedging reserve comprises the effective portion of the cumulative net gain or loss on the hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows in accordance with the accounting policy adopted for cash flow hedges.

35. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities:

	Interest-bearing bank loans and other borrowings
	(HK$'000)
At 1 January 2017	1,228,757
Changes from financing cash flows	1,430,506
Foreign exchange realignment	77,536
As at 31 December 2017 and 1 January 2018	2,736,799
Changes from financing cash flows	50,533
Foreign exchange realignment	(10,142)
As at 31 December 2018	**2,777,190**

36. OPERATING LEASE ARRANGEMENTS

AS LESSEE

	2018	2017
	(HK$'000)	
Within one year	87,866	138,833
After one year but not more than five years	174,206	123,027
More than five years	22,950	–
	285,022	**261,860**

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37. COMMITMENTS

In addition to the operating lease commitments disclosed in note 36 above, the Group had the following commitments as at 31 December:

(A) CAPITAL COMMITMENTS

The Group had the following capital commitments:

	2018	2017
	(HK$'000)	
Contracted, but not provided for, in respect of acquisition of:		
Property, plant and equipment	8,100	11,226

(B) OTHER COMMITMENT

	2018	2017
	(HK$'000)	
Upfront fee of a term loan facility	24,067	9,516

37. COMMITMENTS (Continued)

(B) OTHER COMMITMENT (Continued)

Pursuant to the term loan facility agreement in relation to the interest-bearing term loan facilities of HK$1,191 million and HK$94 million that were entered into between an oversea wholly-owned subsidiary and financial institution. The Group has paid to the financial institution an upfront fee equal to 0.96 percent on each of the loan amounts. The Group shall pay to the financial institution an upfront fee equal to 0.4 percent of the aggregated amount HK$1,285 million which is payable on and before the earlier of (i) the first anniversary of the loan agreement; (ii) the date on which the loans are repaid (in full or in part); and (iii) if no loans have been made by the expiry of the facility availability period, the last day of the availability period. The Group shall also pay an upfront fee equal to 0.4 percent which is payable on and before the earlier of: (i) the second anniversary of the loan agreement; (ii) the date on which the loans are repaid (in full or in part); and (iii) if no loans have been made by the expiry of the facility availability period, the last day of the availability period.

Pursuant to the term loan facility agreement in relation to the interest-bearing term loan facility of HK$783 million that was entered into between an oversea wholly-owned subsidiary and financial institution. The Group shall paid to the financial institution an upfront fee equal to 0.96 percent on the loan amounts on and before the earlier of (i) the date falling 30 days after the date of the facility agreement and (ii) the first utilization date of the loan facility. The Group shall pay to the financial institution an upfront fee equal to 0.4 percent of the facility amount HK$783 million which is payable on and before the earlier of (i) the first anniversary of the loan agreement; (ii) the date on which the loans are repaid (in full or in part); and (iii) if no loans have been made by the expiry of the facility availability period, the last day of the availability period. The Group shall also pay an upfront fee equal to 0.4 percent which is payable on and before the earlier of: (i) the second anniversary of the loan agreement; (ii) the date on which the loans are repaid (in full or in part); and (iii) if no loans have been made by the expiry of the facility availability period, the last day of the availability period.

38. RELATED PARTY TRANSACTIONS AND BALANCES

(A) NAME AND RELATIONSHIP

Name of related party	**Relationship with the Group**
Mr. Song Zhenghuan ("Mr. Song")	Director and one of the ultimate shareholders of the Company
Goodbaby Bairuikang Hygienic Products Co., Ltd. ("BRKH")	50/50 jointly controlled by First Shanghai Hygienic Products Limited and Sure Growth Investments Limited, which is significantly influenced by Mr. Song and his spouse
Goodbaby Group Co., Ltd. ("GGCL")	Controlled by Mr. Song and his spouse
Goodbaby China Holdings Limited ("CAGB")	Controlled by Mr. Song and his spouse
Goodbaby China Commercial Co., Ltd. ("GCCL")	Wholly owned by CAGB
Shanghai Goodbaby Child Products Co., Ltd. ("SGCP")	Ultimately owned by CAGB
Mothercare-Goodbaby Retailing Co., Ltd. ("MGRL")	Ultimately owned by CAGB
Goodbaby Group Pingxiang Co., Ltd. ("GGPX")	Wholly owned by GGCL
Goodbaby (China) Commercial Holdings Limited ("GCHL")	Wholly owned by CAGB

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38. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(B) RELATED PARTY TRANSACTIONS

(i) In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	2018	2017
	(HK$'000)	
Sales of goods to related parties (note (a))		
CAGB and its subsidiaries#	**26,843**	**696,275**
Purchase of goods from a related party (note (b))		
GCCL#	**1**	**326**
Rental expenses to related parties (note (c))		
GGPX#	12,564	11,752
GGCL#	414	769
	12,978	**12,521**
Expenses paid on behalf of related parties (note (d))		
GCCL#	241	680
Expenses paid by a related party (note (d))		
BRKH#	**32**	**236**

Note (a): The sales of goods to the related parties were made according to the prices and terms agreed with the related parties.

Note (b): The purchase of goods from the related party was made according to the prices and terms agreed with the related party.

Note (c): The rental expenses to related parties were paid according to the prices and terms agreed with the related parties.

Note (d): The expenses paid on behalf of/by the related parties are interest-free and repayable on demand.

These related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

38. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(C) OUTSTANDING BALANCES WITH RELATED PARTIES

The amounts due from related parties are unsecured, interest-free and repayable in 120 days.

	2018	2017
	(HK$'000)	
Amounts due from a related party:		
MGRL	11,571	–
Amounts due to related parties:		
GCCL	–	73,733
GCHL	–	18,805
CAGB	–	6,605
	–	99,143

The amounts due to related parties are unsecured, interest-free and have no fixed terms of repayment.

(D) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

	2018	2017
	(HK$'000)	
Short term employee benefits	28,169	65,374
Equity-settled share option expense	24,661	4,286
Post-employment benefits	1,208	1,616
Director fees	–	78
Total compensation paid to key management personnel	**54,038**	**71,354**

Further details of directors' remuneration are included in note 9 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2018	2017	2018	2017
	(HK$'000)			
Financial assets				
Derivative financial instruments	2,987	22,250	2,987	22,250
Other long-term assets – call option over non-controlling interests	4,287	4,160	4,287	4,160
Available-for-sale investments	–	138,088	–	138,088
	7,274	**164,498**	**7,274**	**164,498**
Financial liabilities				
Derivative financial instruments	1,058	4,408	1,058	4,408
Put option over non-controlling interests	10,951	10,460	10,951	10,460
Interest-bearing bank loans and other borrowings	2,777,190	2,736,799	2,777,190	2,736,799
	2,789,199	**2,751,667**	**2,789,199**	**2,751,667**

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Management has assessed that the fair values of cash and cash equivalents, trade and notes receivables, financial assets included in prepayments, other receivables, time deposits, pledged time deposits, current interest-bearing bank loans and other borrowings, trade and bills payables, other liabilities, and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments. The carrying amount of the non-current interest-bearing bank loans, and other borrowings of the Group approximates to their fair value because the loans have a floating interest rate.

The finance manager of each subsidiary of the Group is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The Group's finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with high credit ratings. Derivative financial instruments, i.e., forward currency contracts, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts are the same as their fair values.

As at 31 December 2018, the marked to market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the financial instruments recognised at fair value.

NOTES TO FINANCIAL STATEMENTS

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39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Below is a summary of significant unobservable inputs to the valuation of wealth investment products together with a quantitative sensitivity analysis as at 31 December 2018 and 2017:

Financial instruments	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input (HK$'000)
Available-for-sale investments	Discount cash flow method	Expected rate of return	2018: nil (2017: 2.2% to 3.5%)	2018: nil (2017: 5% increase (decrease) expected rate of return would result in increase (decrease) in fair value by HK$38 (HK$38))

FAIR VALUE HIERARCHY

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	31 December 2018	Fair value measurement using		
		Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
	(HK$'000)			
Financial assets at fair value through profit or loss				
– Call options over non-controlling interests	4,287	–	–	4,287
Derivative financial instruments	2,987	–	2,987	–
	7,274	**–**	**2,987**	**4,287**

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

FAIR VALUE HIERARCHY (Continued)

	31 December 2017	Fair value measurement using		
		Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
	(HK$'000)			
Financial assets at fair value through profit or loss				
– Call option over non-controlling interests	4,160	–	–	4,160
Available-for-sale investments	138,088	–	–	138,088
Derivative financial instruments	22,250	–	22,250	–
	164,498	**–**	**22,250**	**142,248**

The movements in fair value measurements in Level 3 during the year are as follows:

	2018	2017
	(HK$'000)	
At 1 January	142,248	5,348
Remeasurement recognised in other expenses	(1,745)	1,747
Purchases	153,877	390,033
Disposals	(290,000)	(257,330)
Exchange realignment	(93)	2,450
At 31 December	**4,287**	**142,248**

During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The Company did not have any financial assets and liabilities measured at fair value as at 31 December 2017 and 2018.

NOTES TO FINANCIAL STATEMENTS

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39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

FAIR VALUE HIERARCHY (Continued)

Liabilities for which fair values are disclosed:

	31 December 2018	Fair value measurement using		
		Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
	(HK$'000)			
Put option over non-controlling interests	10,951	–	–	10,951
Derivative financial instruments	1,058	–	1,058	–
Interest-bearing bank loans and other borrowings	2,777,190	–	2,777,190	–
	2,789,199	**–**	**2,778,248**	**10,951**

	31 December 2017	Fair value measurement using		
		Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
	(HK$'000)			
Put option over non-controlling interests	10,460	–	–	10,460
Derivative financial instruments	4,408	–	4,408	–
Interest-bearing bank loans and other borrowings	2,736,799	–	2,736,799	–
	2,751,667	**–**	**2,741,207**	**10,460**

The movements in fair value measurements in Level 3 during the year are as follows:

	2018	2017
	(HK$'000)	
At 1 January	10,460	8,893
Remeasurement recognised in other expense	1,211	241
Exchange realignment	(720)	1,326
At 31 December	**10,951**	**10,460**

40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

FINANCIAL ASSETS

As at 31 December 2018

	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total
	(HK$'000)		
Trade and notes receivables	–	1,097,040	1,097,040
Financial assets included in prepayments and other receivables (note 21)	–	303,536	303,536
Due from a related party	–	11,571	11,571
Derivative financial instruments	2,987	–	2,987
Other long-term assets (note 18)	4,287	3,712	7,999
Time deposits	–	3,447	3,447
Cash and cash equivalents	–	926,952	926,952
	7,274	2,346,258	2,353,532

As at 31 December 2017

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Total
	(HK$'000)			
Trade and notes receivables	–	–	1,171,738	1,171,738
Financial assets included in prepayments and other receivables (note 21)	–	–	232,285	232,285
Available-for-sale investments	–	138,088	–	138,088
Derivative financial instruments	22,250	–	–	22,250
Other long-term assets (note 18)	4,160	–	3,064	7,224
Pledged time deposits	–	–	15,370	15,370
Time deposits	–	–	84,054	84,054
Cash and cash equivalents	–	–	952,153	952,153
	26,410	138,088	2,458,664	2,623,162

NOTES TO FINANCIAL STATEMENTS

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40. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

FINANCIAL LIABILITIES

As at 31 December 2018

	Financial liabilities at fair value through profit of loss	Financial liabilities at amortised cost	Total
		(HK$'000)	
Financial liabilities included in other payables and accruals (note 26)	–	185,708	185,708
Trade and bills payables	–	1,439,374	1,439,374
Interest-bearing bank loans and other borrowings	–	2,777,190	2,777,190
Derivative financial instruments	1,058	–	1,058
Other liabilities (note 31)	–	10,951	10,951
	1,058	**4,413,223**	**4,414,281**

As at 31 December 2017

	Financial liabilities at fair value through profit of loss	Financial liabilities at amortised cost	Total
		(HK$'000)	
Financial liabilities included in other payables and accruals (note 26)	–	190,419	190,419
Trade and bills payables	–	1,312,573	1,312,573
Interest-bearing bank loans and other borrowings	–	2,736,799	2,736,799
Derivative financial instruments	4,408	–	4,408
Other liabilities (note 31)	–	10,460	10,460
Due to related parties	–	99,143	99,143
	4,408	4,349,394	4,353,802

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise interest-bearing bank loans and other borrowings, trade and bills payables, other payables and other liabilities. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial investments such as trade and other receivables, cash and cash equivalents and amounts due from related parties, which arise directly from its operations.

The Group also enters into derivative transactions, primarily forward currency contracts. The purpose is to manage the currency risk arising from the Group's operations.

It is, and has been throughout the year, the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks which are summarised below.

INTEREST RATE RISK

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings with floating interest rates. The interest rates and terms of repayment of borrowings are disclosed in note 28.

The Group has not used any interest swaps to hedge its exposure to interest rate risk. The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings as follows:

	Increase/ decrease in interest rate	(Decrease)/ increase in profit before tax
	(HK$'000)	
Year ended 31 December 2018	+5%/–5%	(6,179)/6,179
Year ended 31 December 2017	+5%/–5%	(3,275)/3,275

A reasonably possible change of 5% in the interest rates with all other variables held constant has no impact on the Group's equity other than retained earnings.

NOTES TO FINANCIAL STATEMENTS

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group has transactional currency exposure. This exposure arises from sales or purchases by operating units in currencies other than the units' functional currencies.

The Group manages its foreign currency risk by entering into foreign currency forward contracts to hedge its exposure to fluctuations on the translation into RMB of its foreign operations of sales in the United States Dollars ("US$") or Euros ("EUR") and the translation into EUR of its foreign operations of sales in various currencies, as described in note 24. It is the Group's policy to ensure that the net exposure is kept to an acceptable level by buying or selling foreign currencies at a fixed rate where necessary to address short term imbalances. Management will continue to monitor foreign exchange exposure and will continue to consider hedging significant foreign currency exposure by using financial instruments such as foreign currency forward contracts.

The operating units' functional currencies of the Group are RMB, EUR and US$, while the currencies which have significant transactional currency exposures are US$ and EUR. The Group's exposure to foreign currency changes for all other currencies is not material. The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$ and EUR exchange rates against RMB, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ decrease in US$ rate	Increase/ (decrease) in profit before tax
		(HK$'000)
Year ended 31 December 2018		
If US$ strengthens against RMB	5%	34,444
If US$ weakens against RMB	–5%	(34,444)
If EUR strengthens against RMB	5%	17,736
If EUR weakens against RMB	–5%	(17,736)
Year ended 31 December 2017		
If US$ strengthens against RMB	5%	(2,625)
If US$ weakens against RMB	–5%	2,625
If EUR strengthens against RMB	5%	3,760
If EUR weakens against RMB	–5%	(3,760)

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

CREDIT RISK

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. For listed debt investments, the Group also monitors them by using external credit ratings. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	Lifetime ECL Simplified approach
	(HK$'000)
Trade receivables*	1,097,040
Financial assets included in prepayments and other receivables	
– Normal**	303,536
Time deposits	
– Not yet past due	3,447
Cash and cash equivalents	
– Not yet past due	926,952
	2,330,975

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.

** The credit quality of the financial assets included in prepayments and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

CREDIT RISK (Continued)

Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from related parties, other receivables and derivative financial instruments, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

As at 31 December 2017, the Group had certain concentrations of credit risk as of the Group's trade receivables were due from the Group's largest customer.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

LIQUIDITY RISK

The Group monitors its exposure to liquidity risk by monitoring the current ratio, which is calculated by comparing the current assets with the current liabilities.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Group's policy is that all the borrowings should be approved by the chief financial officer.

The tables below summarise the maturity profile of the Group's financial liabilities at the end of each reporting period based on contractual undiscounted payments:

31 December 2018

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	(HK$'000)				
Interests-bearing bank loan and other borrowings	155,693	457,726	359,265	2,003,344	2,976,028
Trade and bills payables	1,269,572	169,802	–	–	1,439,374
Derivative financial instruments	–	1,058	–	–	1,058
Other liabilities	–	–	–	10,951	10,951
Other payables	185,708	–	–	–	185,708
	1,610,973	**628,586**	**359,265**	**2,014,295**	**4,613,119**

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

LIQUIDITY RISK (Continued)

31 December 2017

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	(HK$'000)				
Interests-bearing bank loan and other borrowings	158,724	660,854	566,754	1,478,002	2,864,334
Trade and bills payables	1,162,294	150,279	–	–	1,312,573
Derivative financial instruments	–	4,408	–	–	4,408
Other liabilities	–	–	–	10,460	10,460
Other payables	190,419	–	–	–	190,419
Due to related parties	99,143	–	–	–	99,143
	1,610,580	**815,541**	**566,754**	**1,488,462**	**4,481,337**

CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit profile and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank loans and other borrowings, trade and bills payables, other payables and accruals, due to related parties, and less cash and cash equivalents. Capital represents equity attributable to owners of the parent and less hedging reserve.

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

CAPITAL MANAGEMENT (Continued)

The gearing ratios at the end of the reporting periods were as follows:

	2018	2017
	(HK$'000)	
Trade and bills payables	1,439,374	1,312,573
Other payables and accruals	760,566	904,996
Interest-bearing bank loans and other borrowings	2,777,190	2,736,799
Due to related parties	–	99,143
Less: Cash and cash equivalents	(926,952)	(952,153)
Net debt	4,050,178	4,101,358
Equity attributable to owners of the parent	4,914,720	5,107,884
Less: Hedging reserve	(1,606)	12,460
Adjusted capital	4,916,326	5,095,424
Capital and net debt	**8,966,504**	**9,196,782**
Gearing ratio	**45%**	**45%**

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018	2017
	(HK$'000)	
NON-CURRENT ASSETS		
Investments in subsidiaries	3,809,860	3,809,860
Total non-current assets	3,809,860	3,809,860
CURRENT ASSETS		
Other receivables	425	3,088
Due from subsidiaries	600,168	621,728
Cash and cash equivalents	2,000	19,553
Total current assets	602,593	644,369
CURRENT LIABILITIES		
Interest-bearing bank loans and other borrowings	–	78,164
Other payables	–	15,727
Payroll payable	–	7
Accrued expenses	–	38,309
Dividend payables	8	8
Due to a subsidiary	1,225,559	958,366
Total current liabilities	1,225,567	1,090,581
NET CURRENT LIABILITIES	(622,974)	(446,212)
TOTAL ASSETS LESS CURRENT LIABILITIES	3,186,886	3,363,648
Net assets	**3,186,886**	**3,363,648**
EQUITY		
Share capital	16,680	16,662
Reserves (note)	3,170,206	3,346,986
Total equity	**3,186,886**	**3,363,648**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium	Share option reserve	Accumulated losses	Total
	(HK$'000)			
Balance at 31 December 2016 and 1 January 2017	1,171,846	41,748	(139,744)	1,073,850
Profit for the year	–	–	54,488	54,488
Dividends	(55,885)	–	–	(55,885)
Issue of shares	2,246,258	–	–	2,246,258
Share issue expense	(17,535)	–	–	(17,535)
Share options exercised	50,790	(13,890)	–	36,900
Equity-settled share option arrangements	–	8,910	–	8,910
Balance at 31 December 2017 and 1 January 2018	3,395,474	36,768	(85,256)	3,346,986
Loss for the year	–	–	(133,935)	(133,935)
Dividends	(83,401)	–	–	(83,401)
Share options exercised	8,328	(2,011)	–	6,317
Equity-settled share option arrangements	–	34,239	–	34,239
As at 31 December 2018	**3,320,401**	**68,996**	**(219,191)**	**3,170,206**

43. EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the end of the reporting period.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2019.

FIVE YEAR FINANCIAL SUMMARY

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2018	2017	2016	2015	2014
	(HK$'000)				
RESULTS					
Revenue	8,629,115	7,142,566	6,238,179	6,951,131	6,115,592
Cost of sales	(4,967,782)	(4,395,786)	(4,126,715)	(4,900,919)	(4,588,057)
Gross profit	3,661,333	2,746,780	2,111,464	2,050,212	1,527,535
Other income and gains	98,303	41,115	59,101	94,881	97,147
Selling and distribution expenses	(2,208,873)	(1,332,515)	(982,468)	(1,030,382)	(777,464)
Administrative expenses	(1,207,135)	(1,103,495)	(924,260)	(794,064)	(699,180)
Other expenses	(16,803)	(39,429)	(50,199)	(3,062)	(3,234)
Operating profit	326,825	312,456	213,638	317,585	144,804
Finance income	3,867	4,617	3,347	7,246	8,606
Finance costs	(123,576)	(65,506)	(55,166)	(60,466)	(48,110)
Share of profits and losses of a joint venture	407	(29)	26	(30)	(31)
Share of profits and losses of an associate	–	–	–	(8)	–
Profit before tax	207,523	251,538	161,845	264,327	105,269
Income tax (expense)/credit	(40,692)	(67,132)	50,395	(61,655)	(47,545)
Profit for the year	166,831	184,406	212,240	202,672	57,724
Attributable to:					
Owners of the parent	163,764	179,350	207,390	197,434	57,475
Non-controlling interests	3,067	5,056	4,850	5,238	249
	166,831	**184,406**	**212,240**	**202,672**	**57,724**

FIVE YEAR FINANCIAL SUMMARY

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2018	2017	2016	2015	2014
	(HK$'000)				
Total assets	10,618,485	10,964,571	5,518,738	5,921,551	6,492,732
Total liabilities	(5,655,379)	(5,798,704)	(3,040,576)	(3,513,449)	(4,165,072)
Non-controlling interests	(48,386)	(57,983)	(37,882)	(42,844)	(30,756)
	4,914,720	**5,107,884**	**2,440,280**	**2,365,258**	**2,296,904**